STIFEL NICOLAUS

March 2012

E&C Industry Trends & Project Tracker

- In **Exhibit 1** we present the latest updates/additions to our Stifel Nicolaus Project Tracker for our E&C coverage universe. According to industry publications:
  - McDermott International (MDR-Buy) is believed to be in competition for two projects in Vietnam and another in Indonesia as the company continues to remain active.
  - Chicago Bridge & Iron (CBI-Buy) with JV partners is completing the onshore FEED for Arrow LNG and competition from a consortium including KBR (KBR-Hold) is expected for the EPCm contract. KBR and CBI are also submitting competing FEEDs for the Cove Point, MD liquefaction facility.
  - Fluor Corp. (FLR-Buy) is expected to be in the running for an infrastructure project in Qatar and an offshore compression platform in the Philippines.
- **Exhibit 2** examines the recent trends in downstream awards, while **Exhibit 3** displays the recent trends in the offshore construction end markets.
- **Exhibits 4-7** display the recent trends in oil supply, demand and inventory levels.
- **Exhibits 8-14** examine the dynamics affecting downstream refining profitability.
- **Exhibits 15-18** examine the latest trends for LNG demand, pricing and capex.
- **Exhibits 19-20** take a look at the petrochemical/ethylene end markets.
- Our Buy-rated E&C names include **Chicago Bridge & Iron N.V.** (CBI-$43.55),**Fluor Corp.** (FLR-$60.06), **Foster Wheeler AG** (FWLT-$22.69), **Jacobs Engineering Group** (JEC-$44.85) and **McDermott International** (MDR-$12.94).

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All relevant disclosures and certifications appear on pages 14-17 of this report.

Exhibit 1: Stifel Nicolaus Project Tracker.

Project Type	Project	Location	Description	E&C Firms Affected (Coverage)						
				CBI	FLR	FWLT	JEC	KBR	MDR	SHAW
Infrastructure	Doha Bay Crossing	Qatar	The Public Works Authority of Qatar set a deadline of early February for RFPs for the management contract for the construction of three separate bridge sections connected at three different points at Doha Bay crossing. **FLR**, **KBR**, Bechtel (US), CH2M Hill (US), KEO International Consultants (Kuwait), Mott MacDonald (UK) and Parsons International (US) all are expected bidders.		X			X		
Petrochemicals	Aramco/Sabic JV: Yanbu Petrochemicals Facility	Saudi Arabia	A feasibility study is being conducted for a proposed petrochemicals joint venture between Saudi Aramco and Saudi Basic Industries Corporation (Sabic) on the west coast of the kingdom. The proposed complex would sit next to the existing Yanbu refinery, which is to undergo a clean fuels rehabilitation that will likely create new feedstock. The project could be similar to the Ras Tanura Refinery upgrade for which **JEC** is carrying out the FEED.				X			
Oil & Gas	Nam Con Son II Pipeline	Vietnam	An invitation to tender for the major pipeline at PetroVietnam's Nam Con Son 300-kilometer subsea gas pipeline development is expected to be due late in the year. All major players are expected to be interested, including **MDR**, Subsea 7, Technip and Saipem. The pipeline is planned to be operational in 2014.						X	
Oil & Gas	Su Tu Nau Development	Vietnam	**MDR**, Nippon Steel Engineering and EDG Consulting are believed to be in competition for the FEED contract for the Su Tu Nau development in Block 15-1 off SE Vietnam. The project is expected to include two wellhead platforms and subsea tie-ins to existing production infrastructure. FEED is expected to be no longer than a year with EPC potentially being tendered in 2013. The FEED contract is expected to be tendered before July, and MDR has a good record in Vietnam that includes design, construction and installation of the Su Tu Vang central processing platform, which could be the production facility utilized in the project.						X	
Oil & Gas	Malampaya Gas Field Phase 3: Compression Platform	Phillipines	Shell is looking to start construction of an offshore compression platform as part of the Phase 3 development of the Malampaya gas field. Offshore installation works are scheduled to begin in mid-2014. **FLR** is the engineer for the topsides and substructure of the compression project, and is expected to be doing all work in the Phillipines through its offices in Manila and Cebu.		X					
Oil & Gas	Auk Complex Bridge-linked Platform	UK North Sea	**CBI** seems well positioned to compete for an engineering contract on Talisman's 12,000 tonne platform to be installed within the Auk complex. The platform will consist of an 8,000 tonne topsides on a 4,000 tonne jacket. CBI performed engineering work for Talisman's MonArb project and the Auk contract is expected to be similar. Installation of the jacket is expected to be in mid-2014 with topsides the following year.	X						

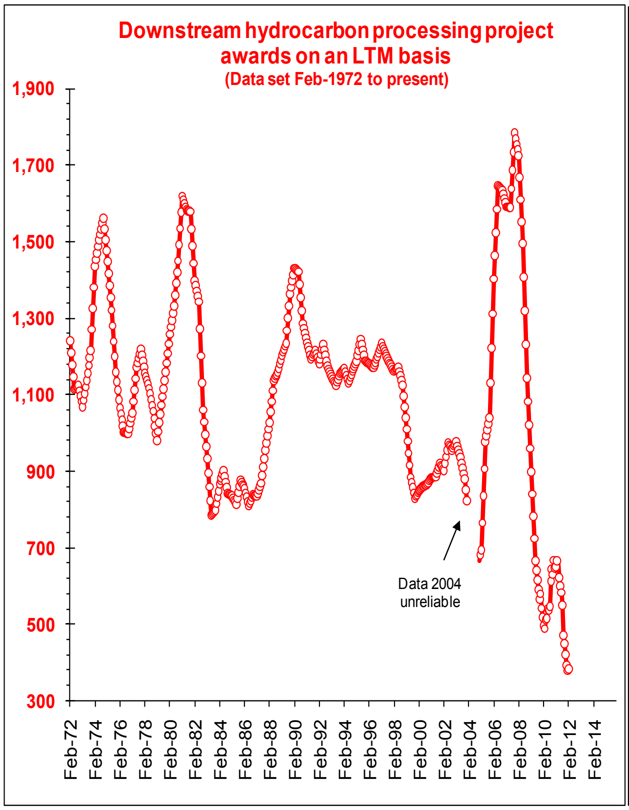
Source: Stifel Nicolaus format

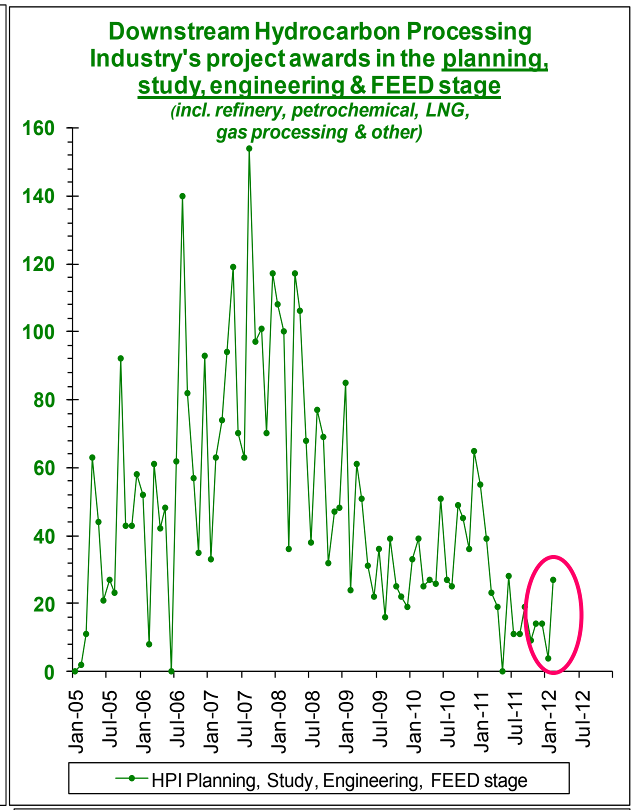
Exhibit 1 continued: Stifel Nicolaus Project Tracker.

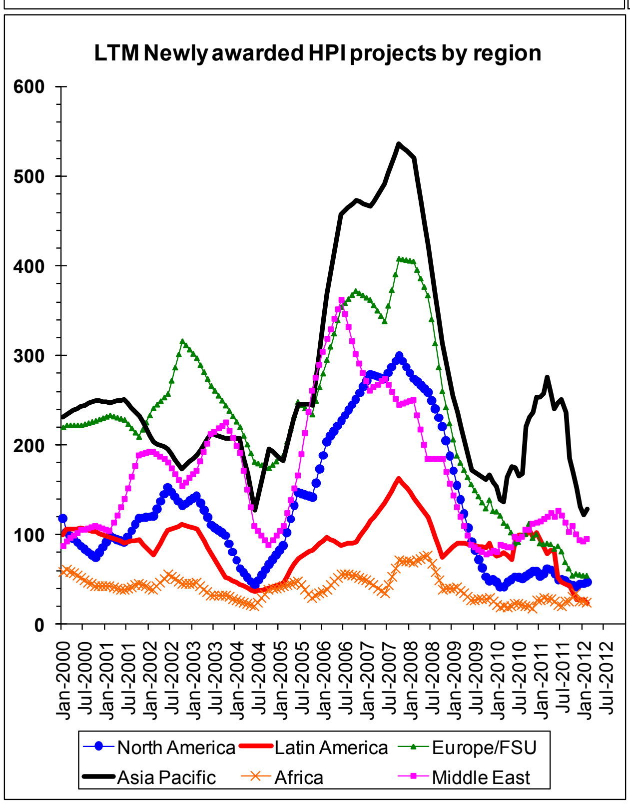
Project Type	Project	Location	Description	E&C Firms Affected (Coverage)						
				CBI	FLR	FWLT	JEC	KBR	MDR	SHAW
Oil & Gas	Madura BD Field Development	Indonesia	Husky Energy is pre-qualifying contractors for the FPSO supply and lease contract (10-year fixed term with 5 annual extension options) for the Madura BD field off East Java in Indonesia. The company expects the FPSO to be a new conversion unless a contractor has a suitable vessel in good condition. Expected output is 110mmcfd of gas and 6,000bpd of condensate. The project will also include a wellhead platform, multiphase flowline from the platform to the FPSO, an onshore gas plant, and an export gas pipeline to the onshore station. Husky has begun pre-qualification for the EPCI for the field infrastructure, with China's Offshore Oil Engineering Corporation (COOEC) said to have teamed up with a local company. Competition is expected from Sempec, the Indonesian subsidiary of Punj Lloyd along with local subsidiaries of **MDR**, Nippon Steel and Singapore-based SMOE. Husky has stated that it plans to file a development plan for the field next year and the project already has gas sales agreements in place and a completed FEED study by Technip.						X	
LNG	Arrow LNG	Australia	A JV of **CBI**, Chiyoda and Saipem is providing onshore FEED for the project that is expected to last a few more months, after which a tender for a $12B to $15B EPCm contract is expected. Three bidders are expected to be in the running: Chiyoda with CBI and Saipem, Technip with JGC and Clough, and a consortium of **KBR**, China Huanqiu Contracting & Engineering Corp., Leighton and John Holland. The plant will initially be a 2-train facility , each with 4.6mmtpa of LNG capacity. Onshore infrastructure will include marine facilities and an ~8km feed-gas pipeline.	X				X		
LNG	Cove Point liquefaction facility	US	**KBR** and **CBI** are working on competing FEED studies for Dominion's Cove Point, MD proposed liquefaction facility. Both companies completed pre-FEED analysis for the project. Shell, BP and Statoil, along with Asian players Kogas and Sumitomo, have entered negotiations with Dominion about export contracts. Dominion plans for two trains that will process 5mmtpa of LNG beginning in 2016.	X				X		
Refining	Hoima Refinery	Uganda	Uganda's President has said that oil will be refined in Uganda in 2014, committing to the Hoima refinery that is expected to reach peak capacity of 200,000-250,000bbl/d. Estimates for the cost of the plant are ~2.05B with the accompanying processing plant at $2.57B. Previously **FWLT** had conducted the FEED study for the refinery.			X				

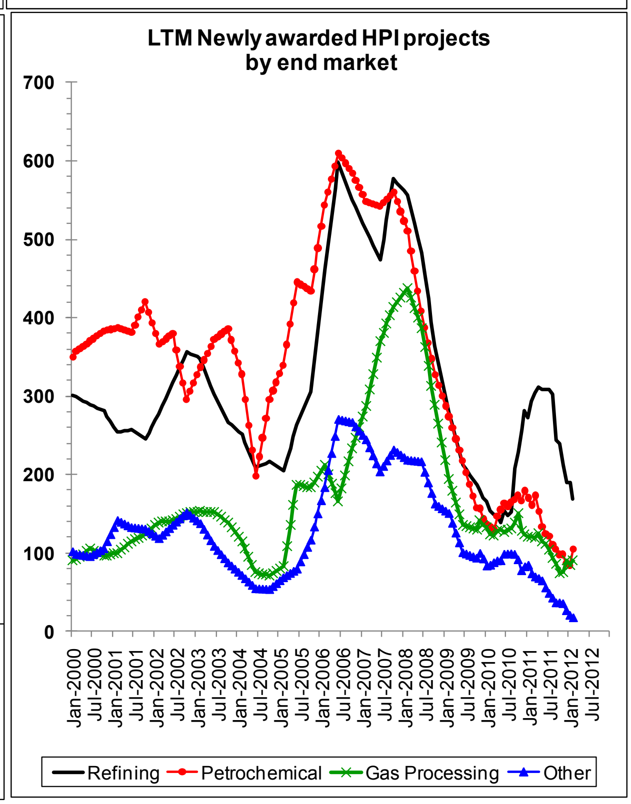
Source: Stifel Nicolaus format

Exhibit 2: The top left chart shows downstream project awards on an LTM basis while the top right chart displays project awards in the early stage engineering/FEED stage. The bottom charts display project awards by region and type.



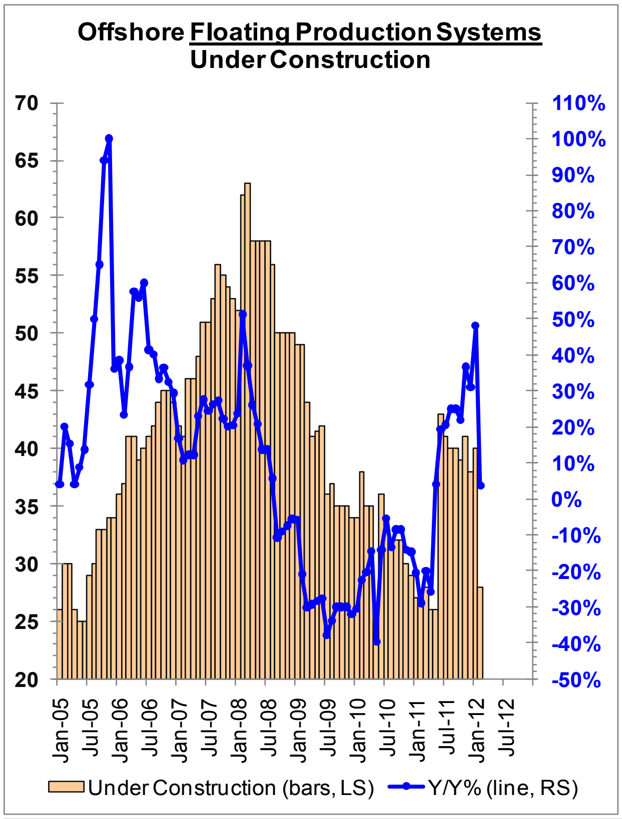


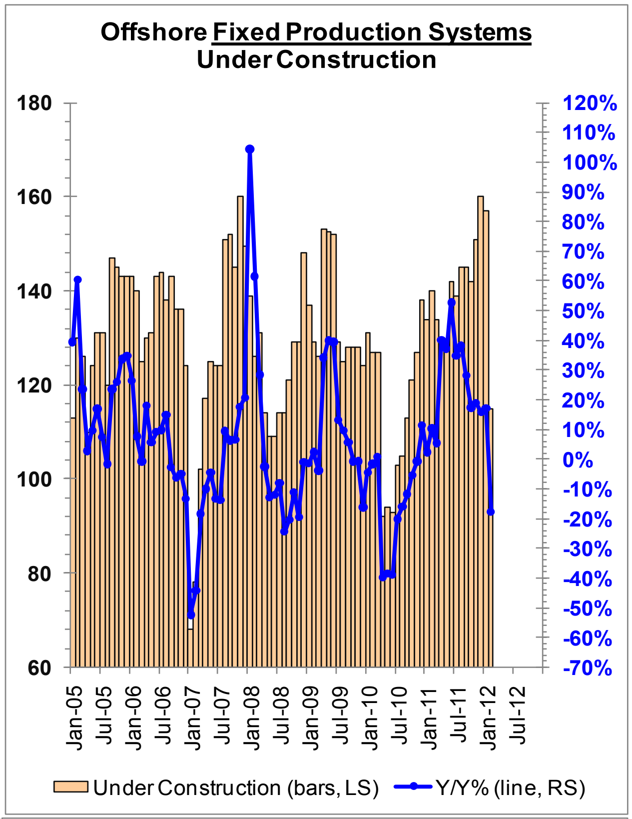


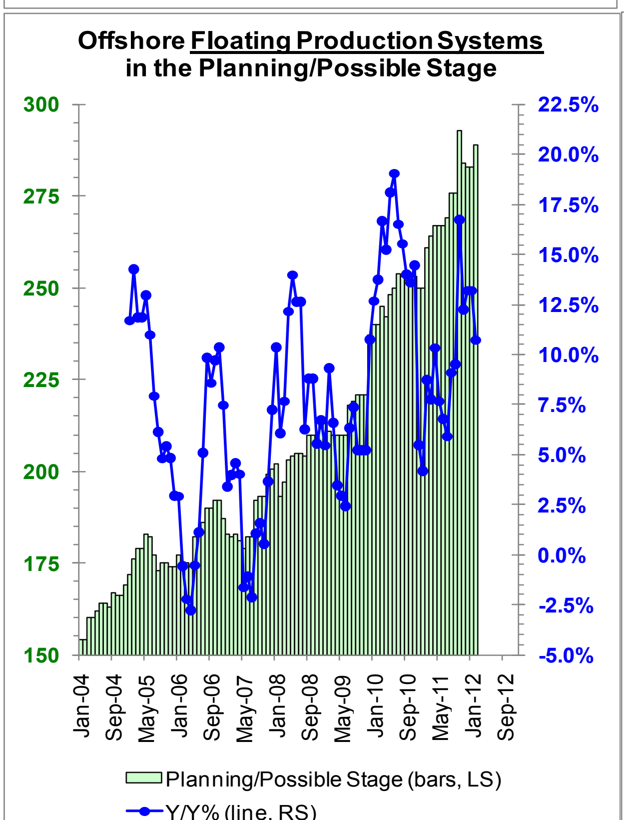


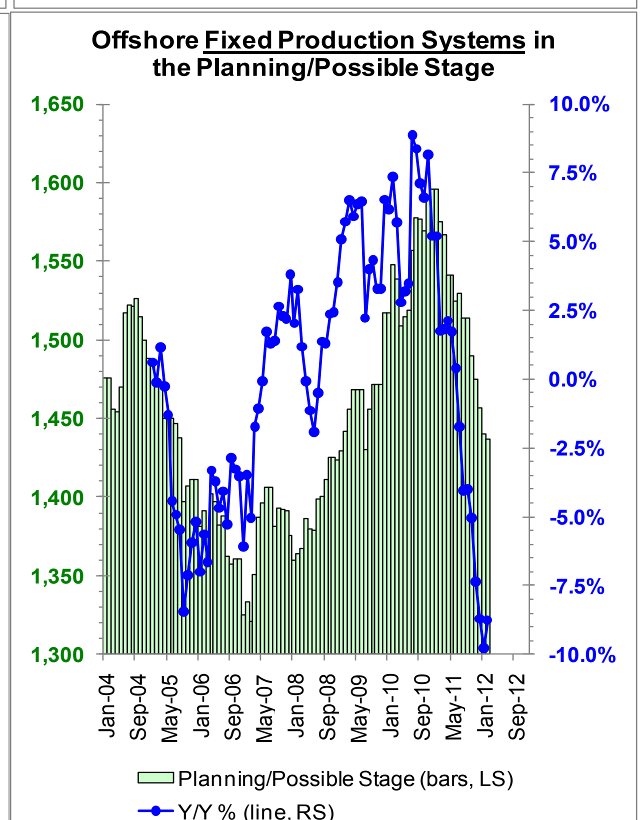
Source: HPI, Stifel Nicolaus format

Exhibit 3: A look at the offshore construction market. The top charts show floating and fixed production systems under construction. The bottom charts show floating and fixed production systems in the planning/possible stage.



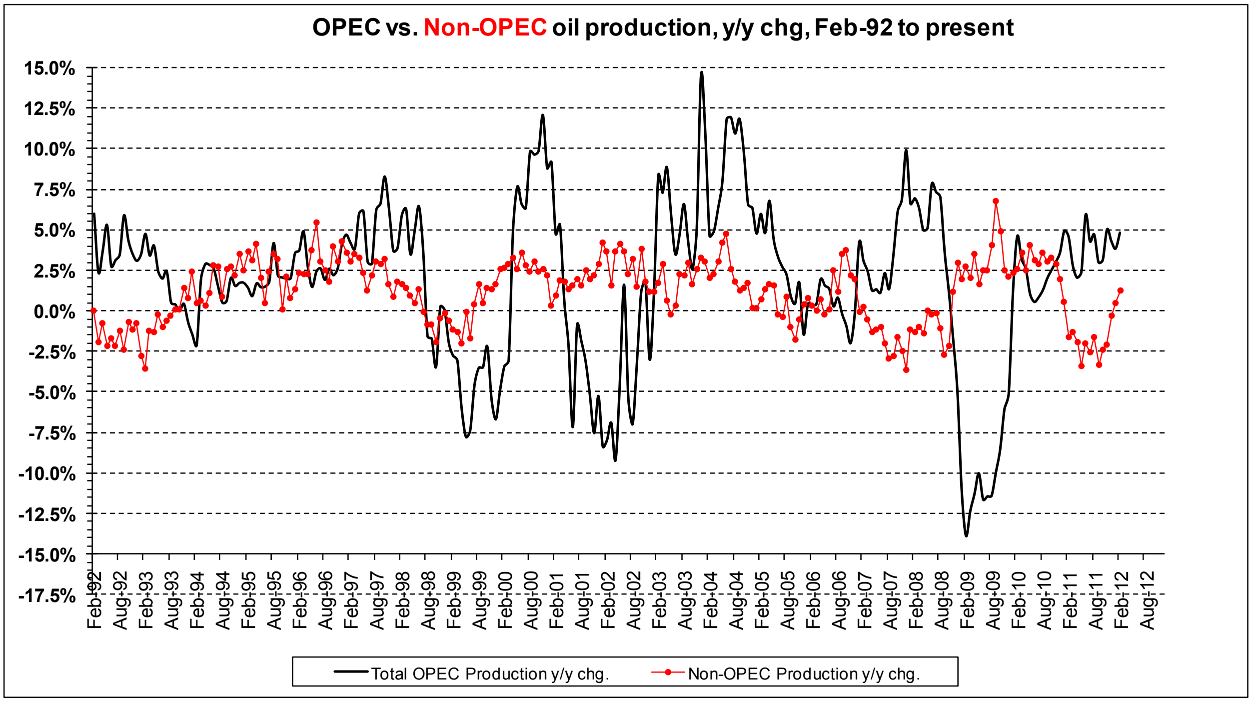






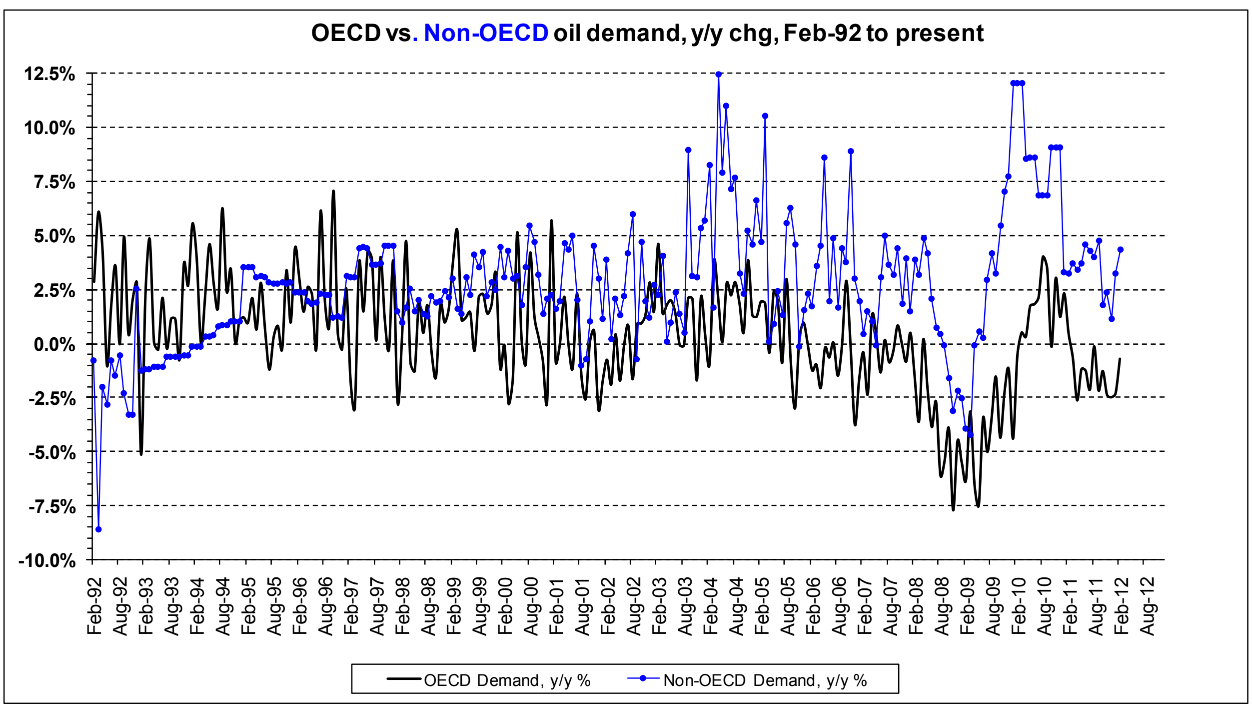
Source: Offshore Engineer, Stifel Nicolaus format.

Exhibit 4: February 2012 OPEC production (incl. NGLs & Iraq) stood at 37.6mm bbl/d, +4.8% y/y, while Non-OPEC production stood at 52.4mm bbl/d, +1.2% y/y (right chart).



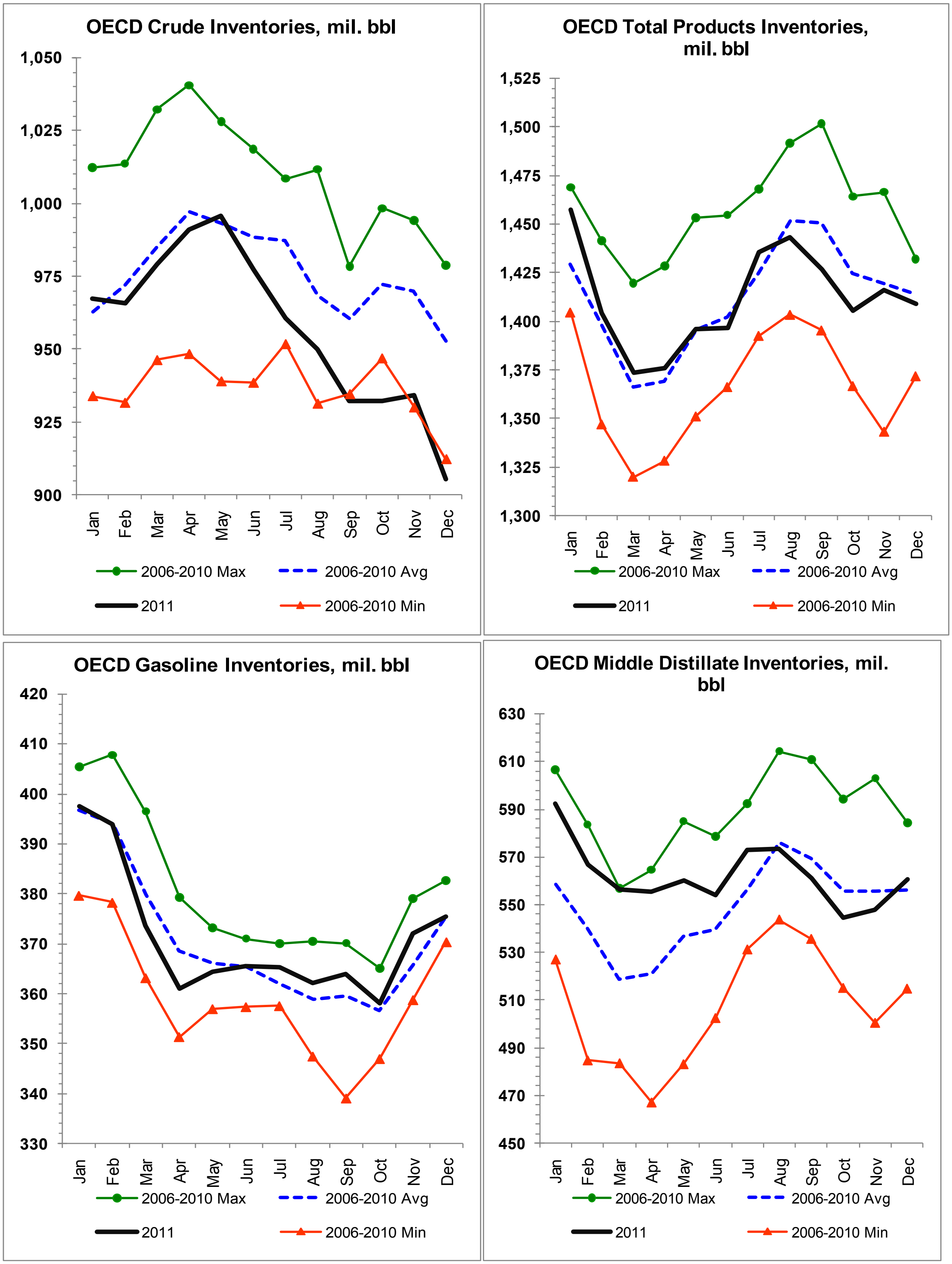
Source: IEA, Stifel Nicolaus format.

Exhibit 5: January 2012 OECD oil demand stood at 46.5mm bbl/d, (0.7)% y/y, while Non-OECD demand of 42.8mm bbl/d was +4.3% y/y.



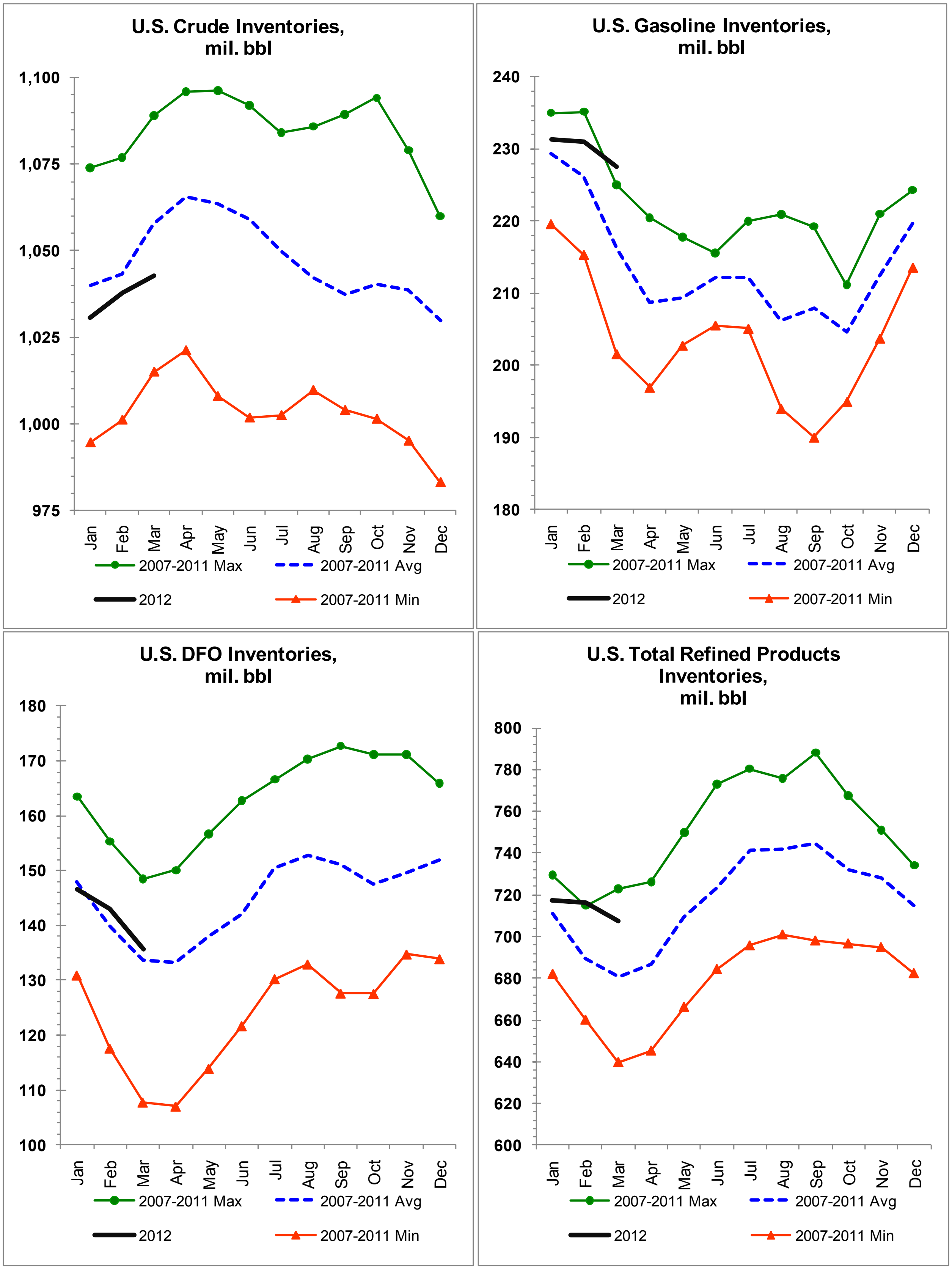
Source: IEA, EIA, Stifel Nicolaus format.

Exhibit 6: OECD inventory levels by type.



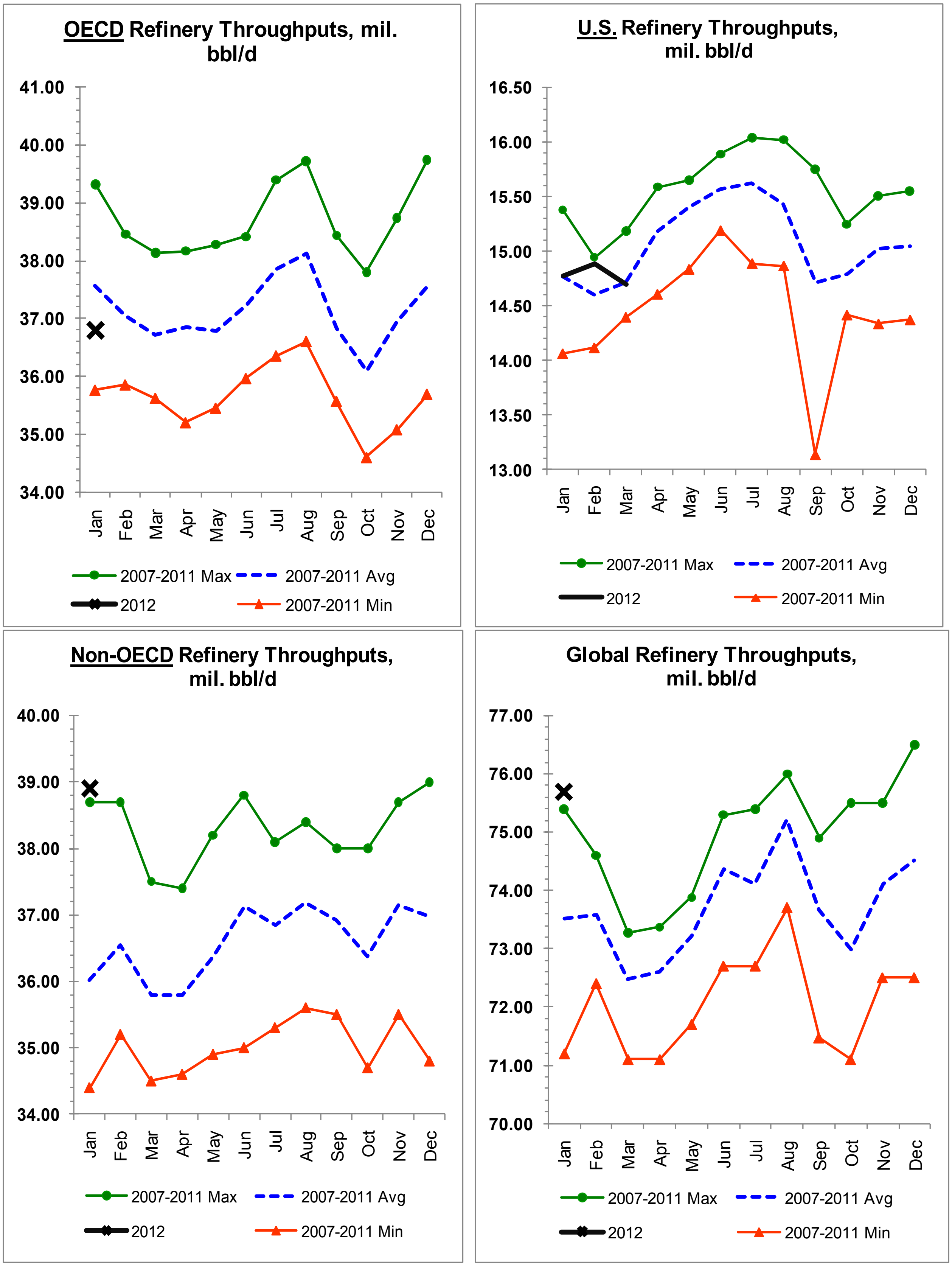
Source: IEA, Stifel Nicolaus format. IEA inventory data is provided with a lag.

Exhibit 7: U.S. inventory levels by type.



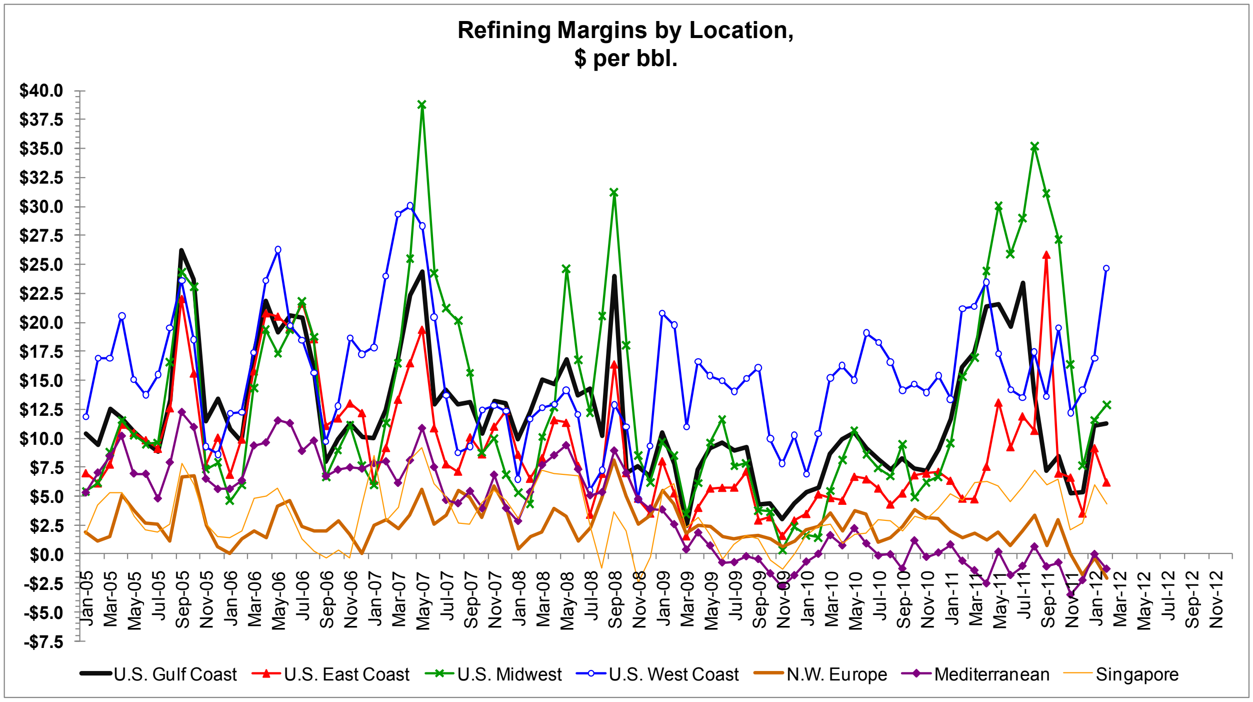
Source: EIA, Stifel Nicolaus format.

Exhibit 8: Refinery throughput rates.



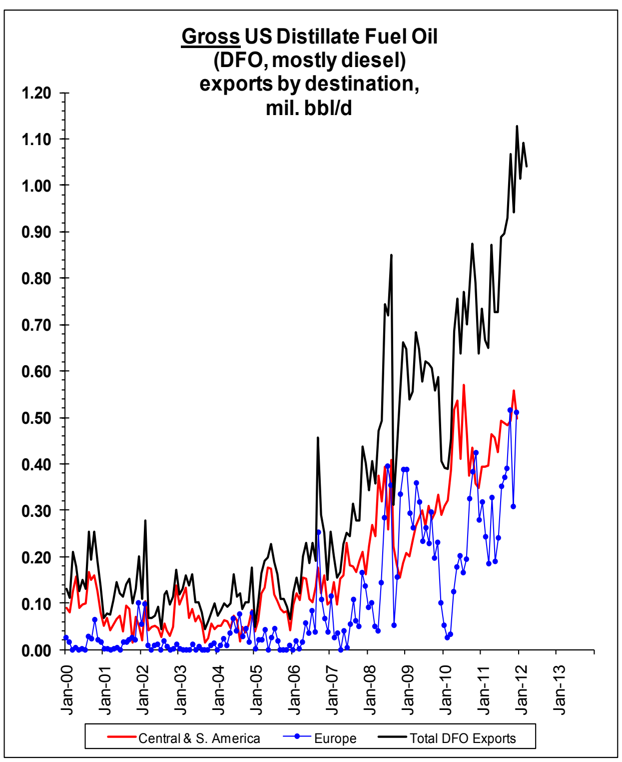
Source: IEA, EIA, Stifel Nicolaus format. IEA refinery throughput data is provided with a lag. Non-OECD data begins in 2007.

Exhibit 9: Refining margins by region.



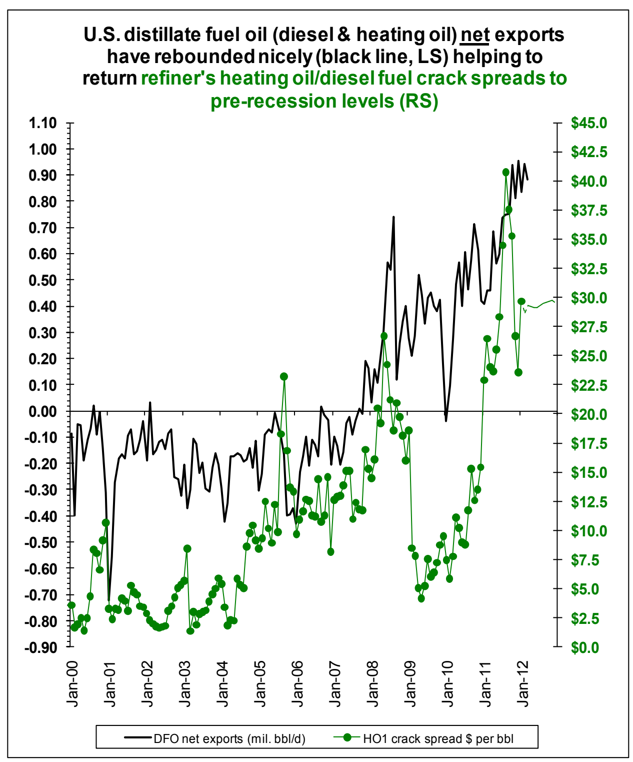
Source: OGJ, Stifel Nicolaus format.

Exhibit 10: U.S. gross diesel exports remain strong, as European cargoes and Central & S. American cargoes continue to climb.



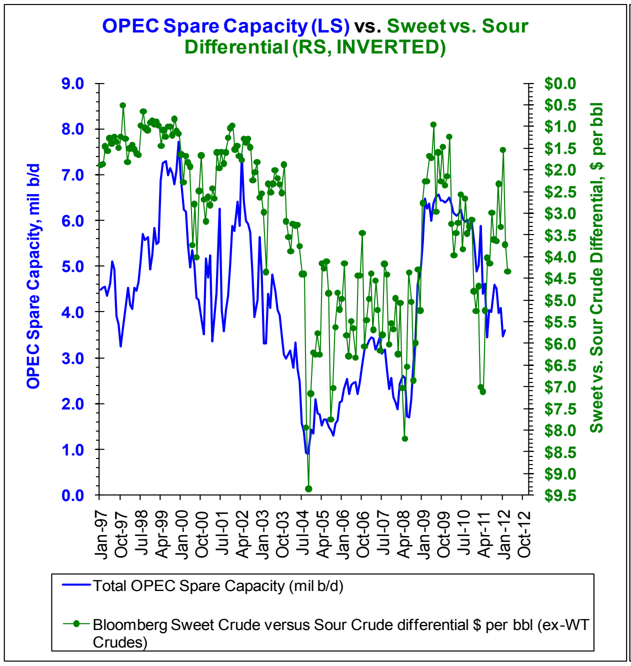
Source: EIA, Stifel Nicolaus.

Exhibit 11: The favorable diesel export market (black line) has helped to pull up the diesel crack spread (green line).



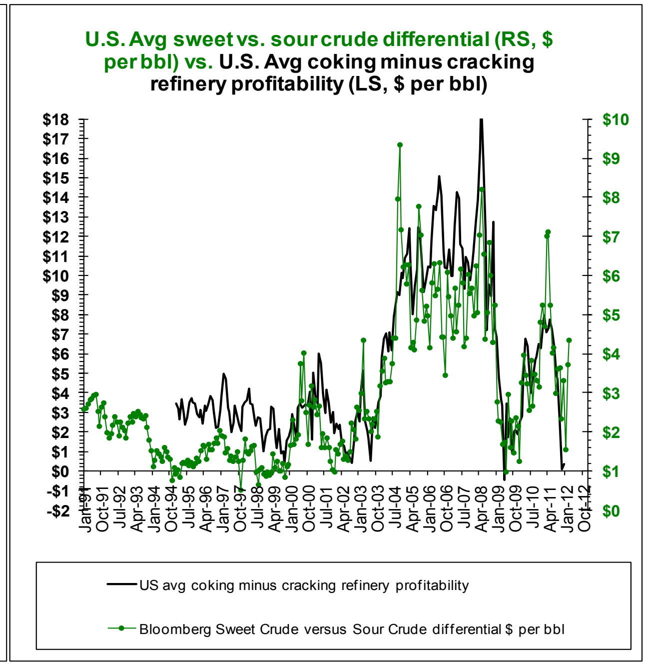
Source: EIA, Bloomberg, Stifel Nicolaus.

Exhibit 12: A tightening of OPEC spare capacity helps to widen the sweet vs. sour differential (more sour crude rel. to sweet) which aids refiner profitability. We expect the spread to widen.



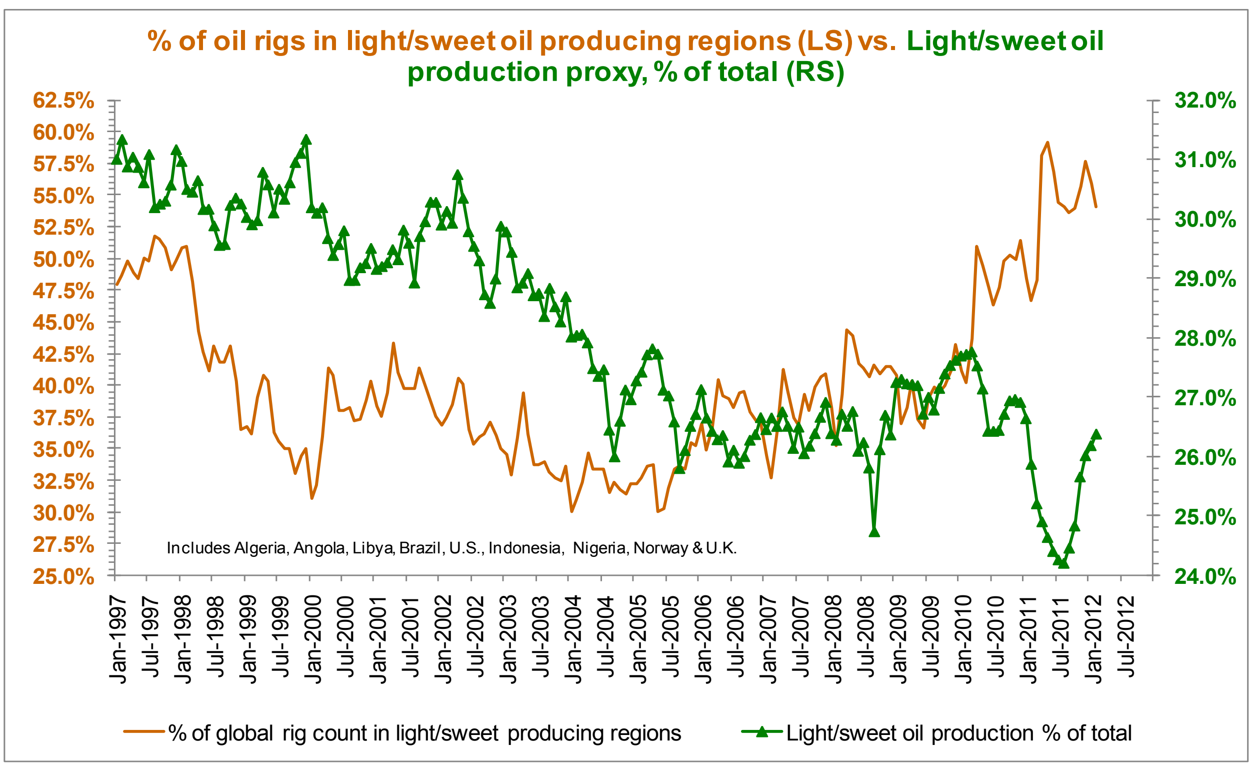
Source: IEA, Bloomberg, Stifel Nicolaus.

Exhibit 13: We are watching for a bounce in coking/complex refinery profitability relative to cracking/less complex refinery profitability.



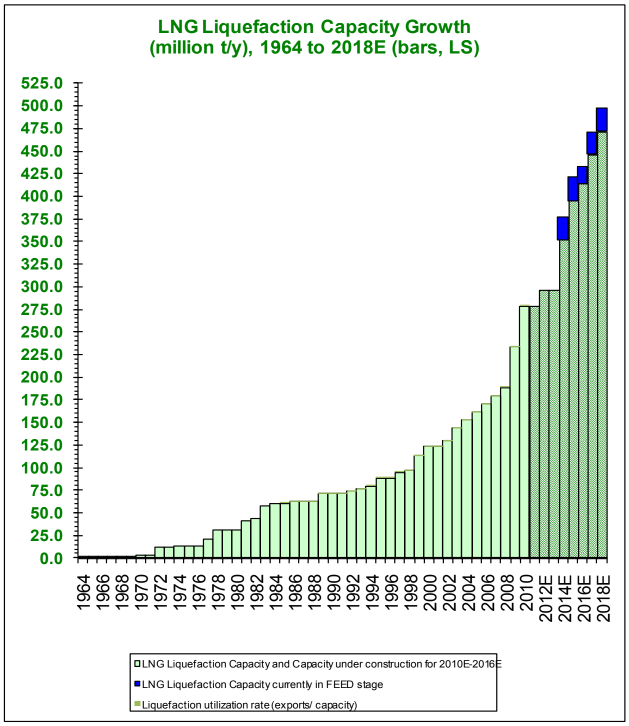
Source: IEA, Stifel Nicolaus.

Exhibit 14: The increased amount of rigs directed towards light/sweet oil producing regions may be a future threat to the sweet vs. sour spread.



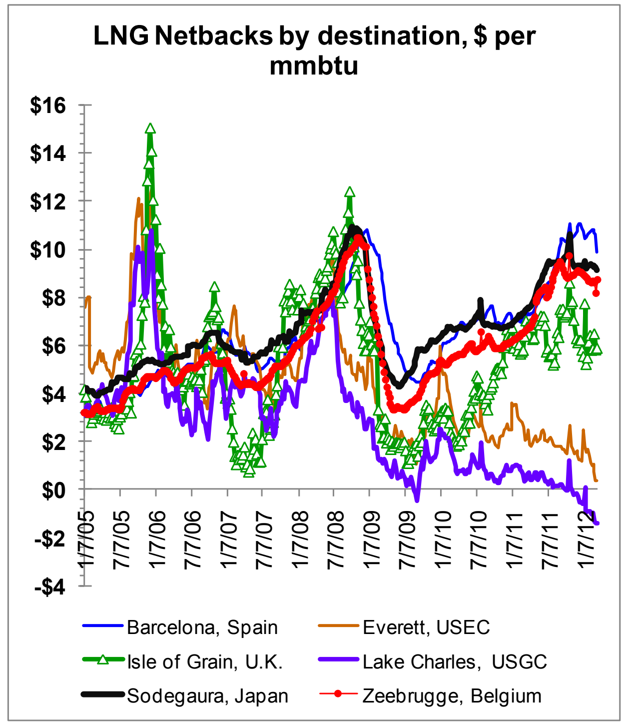
Source: BHI, EIA, Stifel Nicolaus format.

Exhibit 15: A look at the LNG capacity additions pipeline to 2018E



Source: OGJ, Upstream, Stifel Nicolaus format.

Exhibit 16: LNG netback pricing by region.



Source: IEA, Bloomberg, Stifel Nicolaus.

Exhibit 17: S. Korea LNG import growth rolled over in conjunction with industrial production.

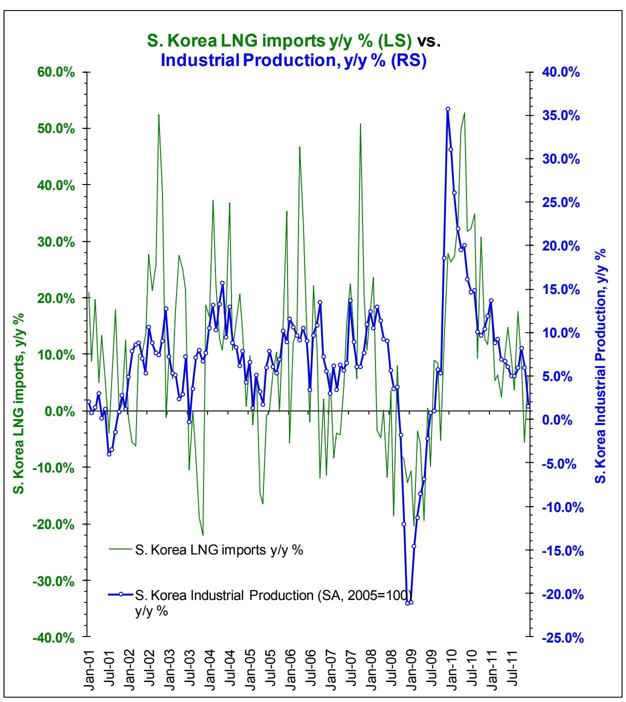
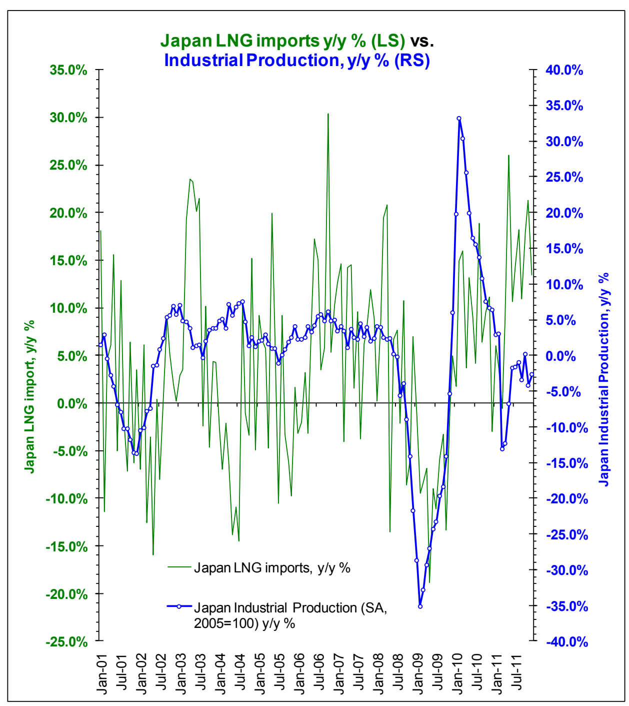
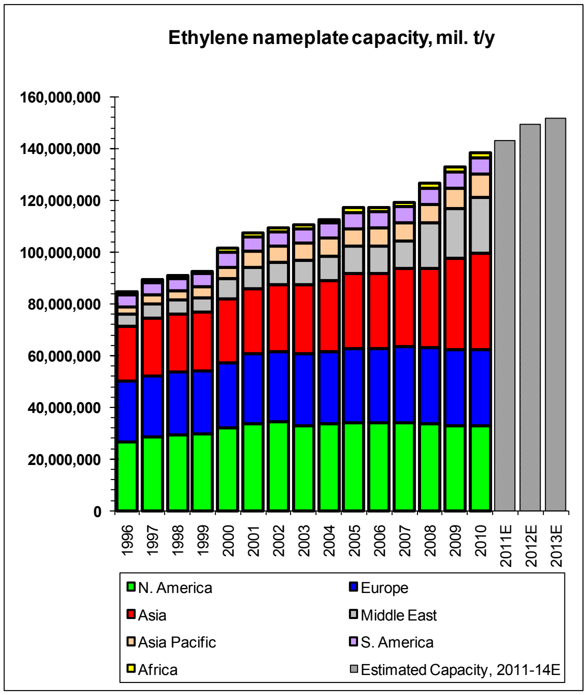


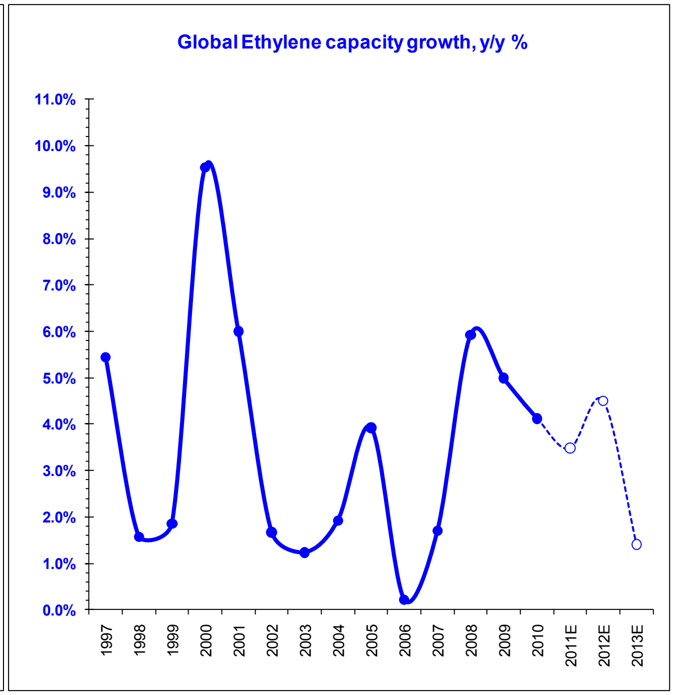
Exhibit 18: Japanese LNG imports continue to remain strong as nuclear electricity generation capacity remains idled.



Source: Bank of Korea, Japan Ministry of Economy, Trade and Industry, Japan Customs Department, Stifel Nicolaus format..

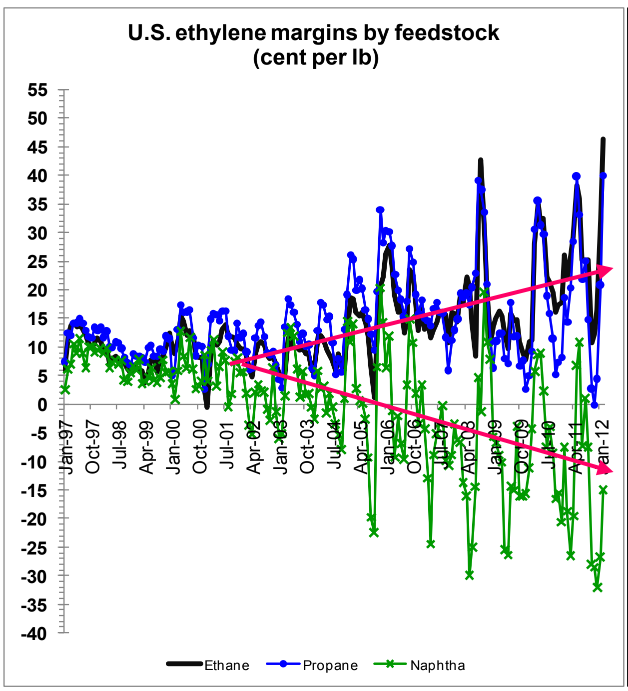
Exhibit 19: Petrochemical/ethylene production capacity growth rates are expected to decline through 2013.

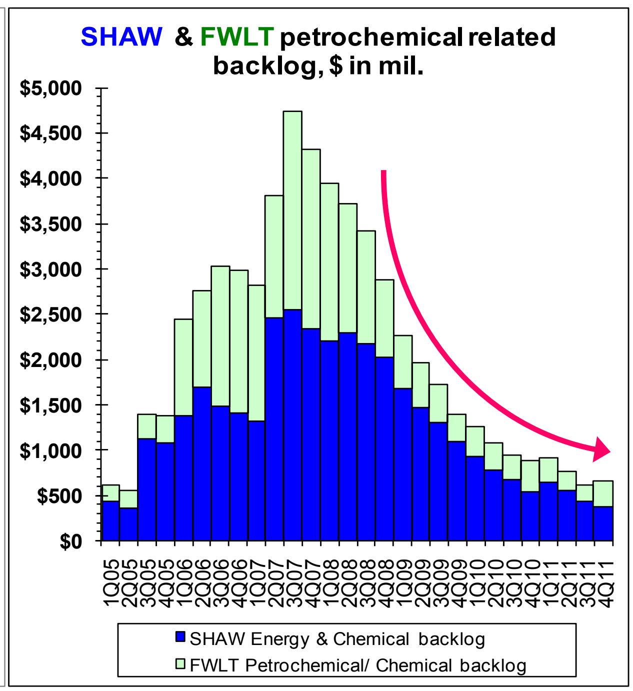




Source: OGJ, Stifel Nicolaus format.

Exhibit 20: However the cheap ethane (natural gas) feedstock advantage for U.S. based producers (left chart) could benefit some of the "ethylene club" members (right chart).





Source: OGJ, Company statements, Stifel Nicolaus format.

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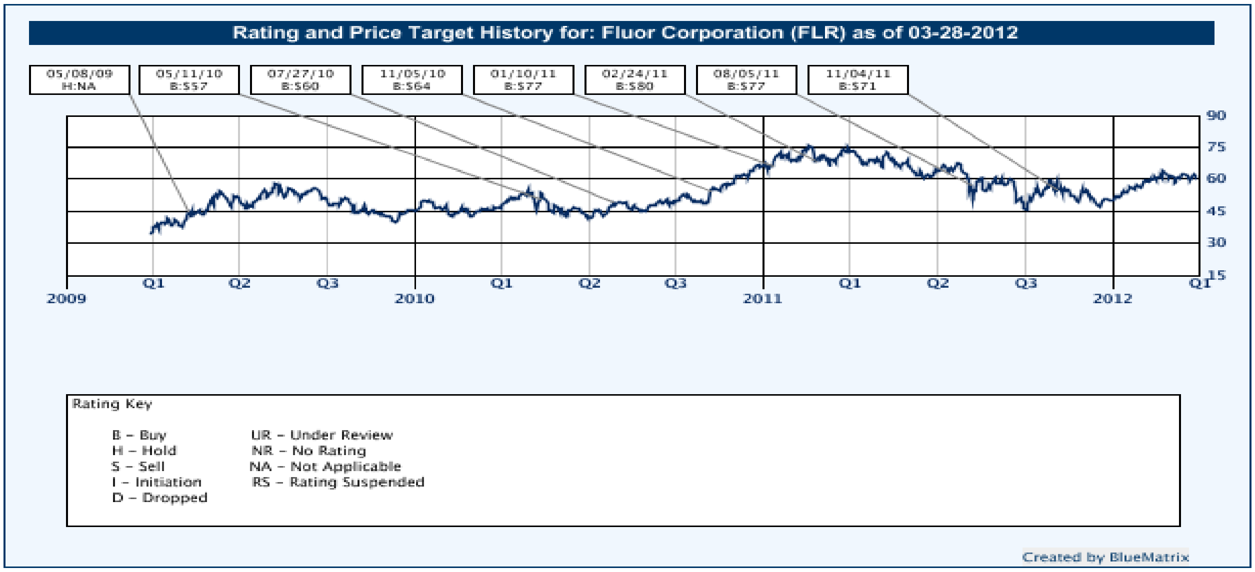
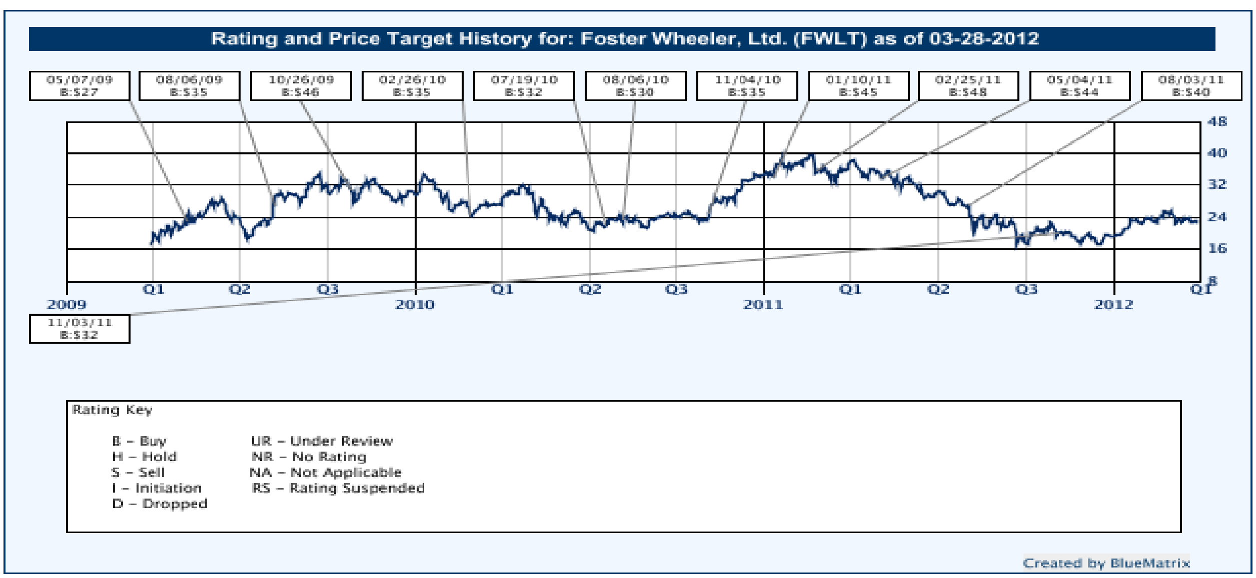
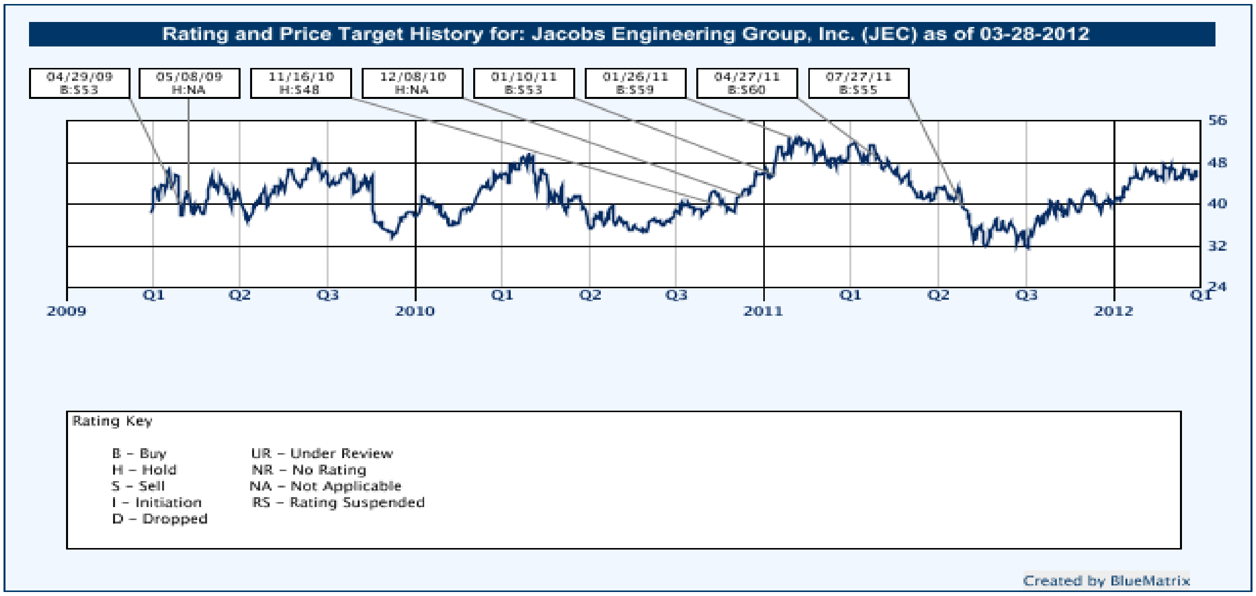


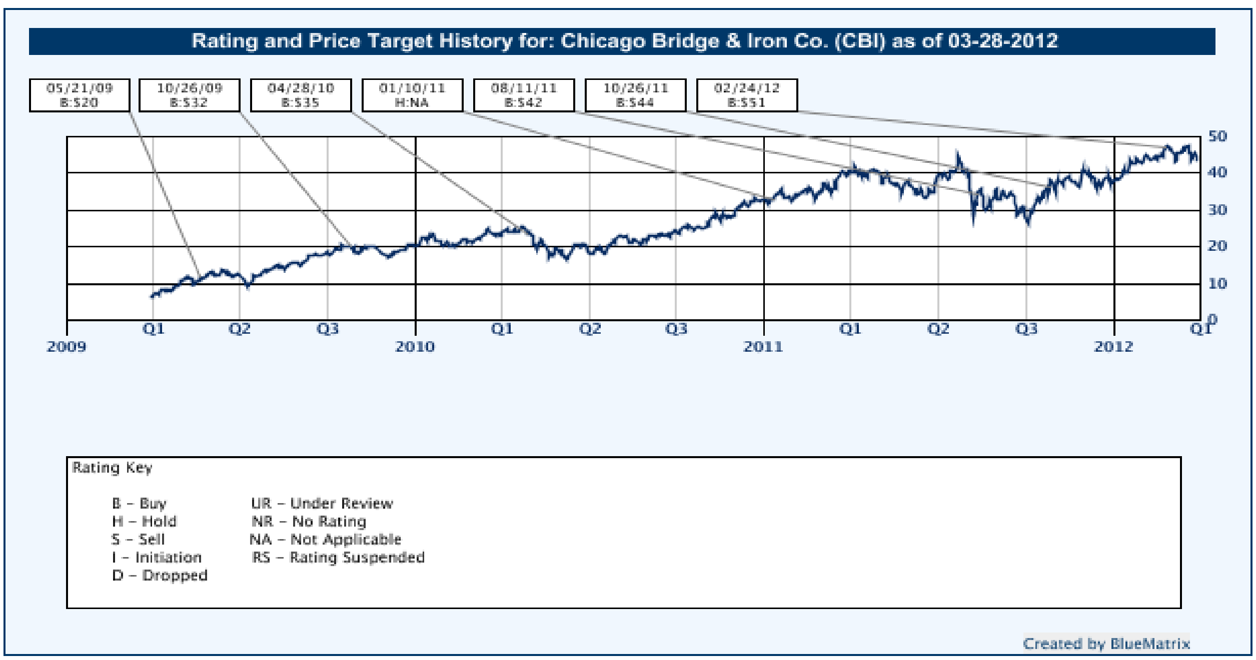
Source: *Blue Matrix, Stifel Nicolaus*
For a price chart with our ratings and target price changes for FLR go to **http://sf.bluematrix.com/bluematrix/Disclosure?ticker=FLR**



Source: *Blue Matrix, Stifel Nicolaus*
For a price chart with our ratings and target price changes for FWLT go to **http://sf.bluematrix.com/bluematrix/Disclosure?ticker=FWLT**



Source: *Blue Matrix, Stifel Nicolaus*
For a price chart with our ratings and target price changes for JEC go to **http://sf.bluematrix.com/bluematrix/Disclosure?ticker=JEC**



Source: *Blue Matrix, Stifel Nicolaus*
For a price chart with our ratings and target price changes for CBI go to **http://sf.bluematrix.com/bluematrix/Disclosure?ticker=CBI**

Source: *Blue Matrix, Stifel Nicolaus*
For a price chart with our ratings and target price changes for MDR go to **http://sf.bluematrix.com/bluematrix/Disclosure?ticker=MDR**

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BUY -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

HOLD -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

SELL -For U.S. securities we expect the stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value. For Canadian securities we expect the stock to underperform the S&P/TSX Composite Index by more than 10% over the next 12 months and believe the stock could decline in value. For other non-U.S. securities we expect the stock to underperform the MSCI World Index by more than 10% over the next 12 months and believe the stock could decline in value.

Of the securities we rate, 51% are rated Buy, 47% are rated Hold, and 2% are rated Sell.

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