

WHAT'S COOKIN' IN MACHINERY AND ENGINEERING & CONSTRUCTION MINING A SEDIMENTARY LIFE?

S&P 500	Dow Jones	NASDAQ	Oil	Nat. Gas	Copper	Corn
1,447.2	13,486.0	3,136.6	\$92.2	\$3.30	\$3.74	\$7.16

CATALYST WATCH

10/2 US Truck Orders

WHAT'S HOT AND WHAT'S NOT

It was a busy week in Machinery with the group falling 3.2%, mainly on the heels of CAT lowering its 2015 target at MINExpo and talked down 2012 sales. CAT's stock fell 6.1% for the week as implied 2012 sales guidance is likely cut ~\$2B driven by inventory reduction over the next two quarters in areas like China, US and SA despite strong retail sales. We believe the \$2B inventory cut (up from \$1B) should not be too surprising and sets CAT up for a better 2013 and beyond. For 2015, CAT now expects EPS in the range of \$12-\$18 vs. prev. \$15-\$20 which was basically expected, in our view. Overall, the tone of MINExpo was cautious over the short term. While China is slowing down, all companies remained confident on the long term outlook and see it as the place to be for future growth. While there have been order pushouts, companies have seen few cancellations. Mining co.'s are still developing plans for projects but due to the uncertainty, things have slowed down and as they are being more selective on new projects. Companies are watching inventory carefully and are taking steps to change production to balance supply with demand needs. Most of the actions have only dealt with temporary production, as equipment manufacturers do not want to be capacity constrained when the macro comes back. Top picks include remain CMI and TEX.

The E&C Group fell 2.4% in a quiet week for the group. According to an article in MEED, the award for the \$4B offshore portion (EPC-2) of the Upper Zakum project in the UAE appears imminent with Hyundai Heavy (in conjunction with KBR) and Samsung emerging as frontrunners. Other bidders include Technip/NPCC, JGC/Daewoo E&C, and Petrofac/Daewoo Shipbuilding. While major projects have been quiet recently, we saw CBI and JEC win a few smaller type awards this week. CBI was awarded a contract in excess of \$80M for an offshore engineering project in Europe. Scope of work includes detailed engineering design as well as the provision of procurement services. JEC also announced it was awarded a contract for three sulfur recovery units for Petronas. Top picks remain FLR, FWLT, MDR and KBR.

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CONSTRUCTION

- CAT Analyst Day Takeaways: CAT held its analyst day at MinExpo. Management implied that 2012 sales guidance is likely to be cut ~\$2B driven by inventory reduction over the next two quarters. This was not too surprising and the inventory issue has been a big overhang on the stock, and this should set CAT up for a better 2013 and beyond. CAT expects 2013 macro to resemble 2012, with better sales growth in 2014 and 2015. For 2015, CAT lowered EPS estimates on weaker macro, now expected to be \$12-\$18 vs previously \$15-\$20. This change was not a big surprise as the change brought EPS in line with the street at the midpoint. Revenues are expected to be \$80-\$100B, or a 5-13% 3-year CAGR on sales. Should the macro turn out better, CAT still expects to be able to reach the previous EPS forecast of \$15-\$20. ([link to note](#))

TRUCK

- Proprietary: Takeaways from IAA Truck Show: Demand in Europe continues to underwhelm and is expected to remain lackluster through year-end. The tone was subdued with demand not expected to come back anytime soon and 2013 appearing to be a flattish year given uncertainty over pre-buy activity. On pre-buy, the views were mixed with more muted expectations coming from the European OEMs. However, US companies stand by expectations of a pending pre-buy. Southern Europe continues to be weak and is likely to remain at depressed level while modest improvement can be seen in the northern countries. Replacement demand could help. In Brazil, demand has stabilized and initial signs are pointing to a higher 2013. ([link to note](#))

MINING

- Proprietary: MINExpo 2012 Takeaways: The mood of the show was overall cautious though manufacturers remained optimistic on the long term. While China is slowing down, all companies remain confident on the long term outlook and see it as the place to be for future growth. The current softness gives the industry a chance to consolidate and incentivizes mechanization. While there have been modest pushouts in orders, there have not been any material cancellations. Inventory levels are a focus and OEs have taken steps to change production to balance supply with demand needs, mostly through temporary production cuts. Still, opportunities for growth remain and mining equipment companies remain positive on the long term. ([link to note](#))
- BHP requests four more years for Olympic Dam plan: BHP asked South Australia for a 46 month extension to the approval of its Olympic Dam project expansion. It was shelved last month and BHP said it would take a "couple of years" at least to get the project off the ground.

FARM

- AGCO unveils \$20M expansion for France manufacturing facility: AGCO announced a \$20M investment in its tractor manufacturing facility in France. The new complex will be for tractor cab production as well as a new Massey Ferguson International Sales Training Center.

OIL AND GAS

- Saipem wins offshore contracts valued at \$950M: Saipem announced several offshore contract wins. In Angola, Saipem won an EPCI contract by CABGOC for the Congo River Crossing Pipeline Project off the coasts of Angola and the Democratic Republic of Congo. The marine activities will be done by pipelayer Castoro 7 between Q4'12 and Q4'13. Also, Saipem signed an EPCI contract in Angola for URF and gas export pipelines. The offshore activities will be done between Q4'13 and Q2'15. In Kazakhstan, Saipem won a contract under a JV from Teniz Burgylau for the fabrication, outfitting and commissioning of a jack-up rig. The delivery is scheduled for Q1'15. Finally, Saipem signed two contracts for T&I activities encompassing the deployment of the Saipem 7000 and the Castoro Sei pipelayer in the North Sea, in different timeframes between Q2'14 and Q3'15.
- Shell expects to tender Iraq gas pipeline deal in 2012: Shell Group is planning to tender a major pipeline maintenance deal before the end of the year. The project will connect several gas processing facilities in Southern Iraq. The company has held several meetings with interested EPC firms. The deal would cover inspection, maintenance and repair of more than 150 in interconnecting pipelines. The rehabilitation and rejuvenation of existing gas facilities and related plants would cost an estimated \$12.8B, and a LNG export terminal would cost another \$4.4B.
- JEC wins Petronas contract: JEC announced it won a contract from Petronas to develop a basic engineering package for three sulfur recovery units. The contract value was not disclosed.
- South Korean contractors are frontrunners for \$4B offshore contract: MEED reports that Hyundai Heavy and Samsung Engineering are the frontrunners for the \$4B offshore portion of Upper Zakum, or the EPC-2 package. The scope of the contract includes constructing crus processing trains on four new artificial islands at the Upper Zakum field, and several other onshore facilities.
- Yemen LNG pipeline attacked: Upstream reports that Yemen LNG confirmed that sabotage caused an explosion on one of its pipelines. The pipeline has been attacked several other times as have other oil and gas infrastructure since anti-government protests broke out in January last year.

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Exhibit 1: Machinery and E&C Stock Performance

			Price	Week Ended	YTD	1 Yr Stock	3 Yr Stock	5 Yr Stock
	Ticker	9/27/2012	9/27/2012	2012	Performance	Performance	Performance	
Machinery	Rush Enterprises	RUSHA	19.48	6.4%	-6.9%	22.9%	49.3%	9.8%
	AGCO	AGCO	46.92	0.2%	9.2%	20.7%	72.1%	-5.5%
	Deere	DE	82.10	-0.2%	6.1%	18.2%	86.8%	11.4%
	Eaton	ETN	47.10	-1.8%	8.2%	26.9%	67.0%	-4.2%
	Parker Hannifin	PH	83.68	-2.2%	9.7%	28.2%	60.3%	11.6%
	Oshkosh Corp.	OSK	27.47	-2.9%	28.5%	58.8%	-4.2%	-54.2%
	Illinois Tool Works	ITW	59.16	-3.1%	26.7%	31.6%	39.9%	-0.7%
	Terex	TEX	22.74	-3.9%	68.3%	91.3%	15.2%	-74.7%
	Cummins	CMI	92.86	-4.2%	5.5%	1.0%	110.5%	41.9%
	CNH Global	CNH	39.85	-4.3%	10.7%	40.4%	140.8%	-34.6%
	PACCAR	PCAR	40.15	-4.3%	7.2%	10.9%	8.2%	-30.9%
	JOY Global	JOYG	57.35	-5.5%	-23.5%	-17.6%	23.9%	14.6%
	Manitowoc Company	MTW	13.53	-6.0%	47.2%	73.9%	42.1%	-69.6%
	Caterpillar	CAT	86.92	-6.1%	-4.1%	11.9%	69.8%	12.2%
	Navistar International Corp.	NAV	21.65	-9.9%	-42.8%	-39.6%	-44.2%	-65.1%
	Average			-3.2%	10.0%	25.3%	49.2%	-15.9%
Engineering & Construction	Willbros Group	WG	5.45	0.4%	48.5%	17.0%	-63.1%	-83.9%
	Shaw Group	SHAW	43.62	-0.5%	62.2%	102.0%	43.0%	-25.0%
	Quanta Services	PWR	24.73	-0.8%	14.8%	27.3%	12.0%	-7.8%
	AECOM	ACM	21.06	-1.6%	2.4%	14.6%	-19.6%	-41.4%
	Foster Wheeler	FWLT	23.80	-1.7%	24.3%	22.3%	-23.6%	-63.1%
	Babcock & Wilcox	BWC	25.49	-2.0%	5.6%	19.7%	-	-
	URS	URS	35.40	-2.4%	0.8%	14.7%	-16.5%	-37.7%
	McDermott International	MDR	12.25	-2.6%	6.4%	-0.5%	-4.5%	-56.2%
	KBR	KBR	30.10	-3.6%	8.0%	16.1%	35.0%	-24.6%
	Jacobs Engineering	JEC	40.86	-4.3%	0.7%	17.3%	-9.5%	-46.8%
	Chicago Bridge & Iron	CBI	38.15	-4.5%	0.9%	23.7%	113.6%	-12.4%
	Fluor Corporation	FLR	56.61	-4.6%	12.7%	9.3%	11.3%	-21.7%
	Average			-2.4%	15.6%	23.6%	7.1%	-38.2%
	S&P 500	SP50	1,447.2	-0.9%	15.1%	23.1%	38.6%	-5.5%

Source: FactSet

Machinery Comps

Exhibit 2: Machinery Comps

	Ticker	Rating	Price	Target Price	Upside (Downside)	Market Cap	Enterprise Value	52 Week	
								High	Low
Caterpillar	CAT	O	\$ 86.92	\$ 117.00	35%	\$ 58,202	\$ 64,129	\$ 116.95	\$ 67.54
Deere	DE	O	\$ 82.10	\$ 90.00	10%	\$ 32,741	\$ 34,934	\$ 89.70	\$ 59.92
Illinois Tool Works	ITW	N	\$ 59.16	\$ 57.00	-4%	\$ 28,166	\$ 29,942	\$ 62.09	\$ 39.12
PACCAR	PCAR	N	\$ 40.15	\$ 44.00	10%	\$ 14,326	\$ 11,884	\$ 48.22	\$ 31.57
Cummins	CMI	O	\$ 92.86	\$ 120.00	29%	\$ 17,653	\$ 17,019	\$ 129.51	\$ 79.53
Eaton	ETN	N	\$ 47.10	\$ 49.00	4%	\$ 15,990	\$ 18,491	\$ 53.06	\$ 33.09
Parker Hannifin	PH	O	\$ 83.68	\$ 89.00	6%	\$ 12,900	\$ 13,791	\$ 91.47	\$ 59.26
AGCO	AGCO	N	\$ 46.92	\$ 56.00	19%	\$ 4,617	\$ 5,751	\$ 54.00	\$ 30.11
Terex	TEX	O	\$ 22.74	\$ 32.00	41%	\$ 2,533	\$ 4,095	\$ 26.77	\$ 9.30
Oshkosh Corp.	OSK	N	\$ 27.47	\$ 25.00	-9%	\$ 2,525	\$ 3,125	\$ 29.79	\$ 14.07
Allison Transmission	ALSN	R	\$ 20.08	NA	-	\$ 3,642	\$ 6,150	\$ 25.22	\$ 15.82

	EPS		EBITDA		P/E		EV/EBITDA		FCF Yield (TTM)
	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	
Caterpillar	\$ 9.60	\$ 10.50	\$ 11,733	\$ 12,667	9.1x	8.3x	5.5x	5.1x	-0.3%
Deere	\$ 7.76	\$ 8.12	\$ 5,472	\$ 5,726	10.6x	10.1x	6.4x	6.1x	-6.2%
Illinois Tool Works	\$ 4.11	\$ 4.45	\$ 3,597	\$ 3,783	14.4x	13.3x	8.3x	7.9x	4.5%
PACCAR	\$ 3.17	\$ 3.62	\$ 1,884	\$ 2,209	12.7x	11.1x	6.3x	5.4x	-6.4%
Cummins	\$ 9.50	\$ 10.35	\$ 2,942	\$ 3,331	9.8x	9.0x	5.8x	5.1x	4.2%
Eaton	\$ 4.35	\$ 4.85	\$ 2,506	\$ 2,756	10.8x	9.7x	7.4x	6.7x	3.2%
Parker Hannifin	\$ 7.15	\$ 7.62	\$ 2,086	\$ 2,303	11.7x	11.0x	6.6x	6.0x	8.5%
AGCO	\$ 5.75	\$ 5.65	\$ 1,021	\$ 1,057	8.2x	8.3x	5.6x	5.4x	2.1%
Terex	\$ 1.90	\$ 2.65	\$ 667	\$ 797	11.9x	8.6x	6.1x	5.1x	7.0%
Oshkosh Corp.	\$ 2.19	\$ 2.28	\$ 497	\$ 500	12.5x	12.1x	6.3x	6.2x	4.6%
			Average		11.2x	10.1x	6.4x	5.9x	

Source: Company data, Credit Suisse estimates, Factset

E&C Comps

Exhibit 3: E&C Comps

	Ticker	Rating	Price	Target Price	Upside (Downside)	Market Cap	Enterprise Value	52 Week	
								High	Low
Fluor Corporation	FLR	O	\$ 56.61	\$76.00	34%	\$ 9,592	\$ 7,556	\$ 64.67	\$ 44.16
McDermott International	MDR	O	\$ 12.25	\$20.00	63%	\$ 2,909	\$ 2,300	\$ 15.35	\$ 9.04
Jacobs Engineering Group	JEC	O	\$ 40.86	\$50.00	22%	\$ 5,264	\$ 4,877	\$ 48.17	\$ 30.74
Quanta Services	PWR	O	\$ 24.73	\$28.00	13%	\$ 5,270	\$ 5,097	\$ 26.07	\$ 16.63
KBR	KBR	O	\$ 30.10	\$48.00	59%	\$ 4,485	\$ 3,796	\$ 38.00	\$ 20.86
Foster Wheeler	FWLT	O	\$ 23.80	\$31.00	30%	\$ 2,566	\$ 1,939	\$ 26.08	\$ 15.26
Shaw Group	SHAW	N	\$ 43.62	\$32.00	-27%	\$ 2,876	\$ 2,047	\$ 43.96	\$ 18.98
Chicago Bridge & Iron	CBI	N	\$ 38.15	\$39.00	2%	\$ 3,725	\$ 3,212	\$ 47.74	\$ 23.88
Babcock & Wilcox	BWC	N	\$ 25.49	\$30.00	18%	\$ 3,040	\$ 2,791	\$ 29.20	\$ 18.91
URS	URS	R	\$ 35.40	NA	-	\$ 2,719	#N/A	\$ 47.16	\$ 27.93

	EPS		EBITDA		P/E		EV/EBITDA		FCF Yield (TTM)
	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	
Fluor Corporation	\$ 3.75	\$ 4.60	\$ 1,151	\$ 1,395	15.1x	12.3x	6.6x	5.4x	1.6%
McDermott International	\$ 1.00	\$ 1.20	\$ 439	\$ 548	12.2x	10.2x	5.2x	4.2x	-0.5%
Jacobs Engineering Group	\$ 2.98	\$ 3.32	\$ 692	\$ 788	13.7x	12.3x	7.0x	6.2x	2.5%
Quanta Services*	\$ 1.40	\$ 1.70	\$ 573	\$ 675	17.7x	14.6x	8.9x	7.6x	0.5%
KBR	\$ 2.70	\$ 3.20	\$ 599	\$ 777	11.2x	9.4x	6.3x	4.9x	6.1%
Foster Wheeler	\$ 1.70	\$ 2.05	\$ 305	\$ 356	14.0x	11.6x	6.4x	5.4x	3.8%
Shaw Group	\$ 2.45	\$ 2.60	\$ 295	\$ 347	17.8x	16.8x	6.9x	5.9x	-1.1%
Chicago Bridge & Iron	\$ 2.95	\$ 3.60	\$ 505	\$ 636	13.0x	10.6x	6.4x	5.1x	10.7%
Babcock & Wilcox	\$ 1.75	\$ 2.00	\$ 381	\$ 457	14.5x	12.8x	7.3x	6.1x	2.6%
			Average		14.3x	12.3x	6.8x	5.6x	

*cash EPS

Source: Company data, Credit Suisse estimates, FactSet

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Companies Mentioned (Price as of 27 Sep 12)

AGCO Corp. (AGCO, \$46.92, NEUTRAL, TP \$56.00)
 Allison Transmission (ALSN, \$20.08, NEUTRAL [V], TP \$19.00)
 Babcock & Wilcox (BWC, \$25.49, NEUTRAL, TP \$30.00)
 BHP Billiton Ltd. (BHP.AX, A\$33.02, NEUTRAL, TP A\$35.00)
 Caterpillar, Inc. (CAT, \$86.92, OUTPERFORM, TP \$117.00)
 Chicago Bridge & Iron (CBI, \$38.15, NEUTRAL, TP \$39.00)
 CNH Global NV (CNH, \$39.85)
 Cummins, Inc. (CMI, \$92.86, OUTPERFORM, TP \$120.00)
 Daimler (DAIGn.DE, Eu38.01, NEUTRAL, TP Eu40.00)
 Deere & Co. (DE, \$82.10, OUTPERFORM, TP \$90.00)
 Eaton Corp. (ETN, \$47.10, NEUTRAL, TP \$49.00)
 Fluor (FLR, \$56.61, OUTPERFORM, TP \$76.00)
 FosterWheeler (FWLT, \$23.80, OUTPERFORM, TP \$31.00)
 Hyundai E&C (000720.KS, W67,700, OUTPERFORM, TP W81,000)
 Jacobs Engineering, Inc. (JEC, \$40.86, OUTPERFORM, TP \$50.00)
 Joy Global, Inc. (JOYG, \$57.35)
 KBR, Inc. (KBR, \$30.10, OUTPERFORM, TP \$48.00)
 McDermott International, Inc. (MDR, \$12.25, OUTPERFORM, TP \$20.00)
 Navistar (NAV, \$21.65)
 Oshkosh Corp. (OSK, \$27.47, NEUTRAL, TP \$32.00)
 Paccar, Inc. (PCAR, \$40.16, NEUTRAL, TP \$43.00)
 Parker Hannifin Corp. (PH, \$83.68, OUTPERFORM, TP \$89.00)
 RSC Holdings (RRR)
 Rush Enterprises, Inc. (RUSHA, \$19.48, OUTPERFORM, TP \$22.00)
 Saipem (SPMI.MI, Eu38.05, OUTPERFORM, TP Eu44.00)
 Shaw Group, Inc. (SHAW, \$43.62, NEUTRAL, TP \$32.00)
 The Manitowoc Company, Inc. (MTW, \$13.53)
 United Rentals, Inc. (URI, \$33.33, OUTPERFORM [V], TP \$47.00)
 URS Corp. (URS, \$35.40, RESTRICTED)
 Volvo (VOLVb.ST, SKr94.05, UNDERPERFORM, TP SKr82.00)
 Wabco Holdings, Inc. (WBC, \$56.82, OUTPERFORM [V], TP \$73.00)
 Willbros Group, Inc. (WG, \$5.45, NEUTRAL [V], TP \$6.00)

Disclosure Appendix

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