

UBS Investment Research

Engineering & Construction

Americas

Heavy Construction

Sector Comment

E&C temperature check in Houston

■ A poll of members and participants at the Rice Global E&C Forum

We recently met with 60+ members of the E&C industry in Houston at the Rice Global E&C Forum. The Forum (RGF) has “a vision to be the premier venue for discussion of critical issues impacting the future of the global E&C industry.” We thank the RGF leadership for allowing us to poll their members and participants.

■ The outlook for the E&C business is generally optimistic

Roughly half the attendees of our meeting participated in a poll we conducted to get a sense of business conditions and the outlook from members of the industry. The outlook for the E&C sector is optimistic, with 81% of the respondents indicating that they feel “Very optimistic” or “Somewhat optimistic.”

■ Utilization is higher than we expected and is improving

Utilization is running at a higher rate than we would have expected and appears to be improving. 85% of the respondents classified their workload as greater than 75% utilized. Within that 85%, a surprising 46% consider themselves more than 100% utilized (working overtime). Even with relatively high utilization, the workload of respondents is increasing, with 72% noting either a rapid or slow increase in workload.

■ Upstream and LNG most frequently mentioned as having robust outlooks

Not surprisingly, upstream oil & gas and LNG projects are leading the list of end markets with the most robust prospects, receiving 50% of total responses.

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www.ubs.com/investmentresearch**Steven Fisher, CFA**Analyst
steven.fisher@ubs.com
+1-212-713 8634**Brandon Verblow**Associate Analyst
brandon.verblow@ubs.com
+1-212-713 9463

Survey Results

We recently met with 60+ members of the E&C industry in Houston at the Rice Global E&C Forum. The Rice E&C Forum has “a vision to be the premier venue for discussion of critical issues impacting the future of the global E&C industry.” We thank the Rice Global Forum leadership for allowing us to poll their members and participants.

Roughly half the attendees of our meeting participated in a poll we conducted to get a sense of business conditions and the outlook from members of the industry. While attendance at the forum was diverse, the member companies of the Rice Global E&C Forum largely consist of the major publicly traded and leading privately held E&C companies. Most of the respondents to the poll work in an engineering or project management role at their respective firms.

The 5-question survey was conducted at the Rice University Global E&C Forum in August 2011.

The following are some of the key observations from the results of the survey:

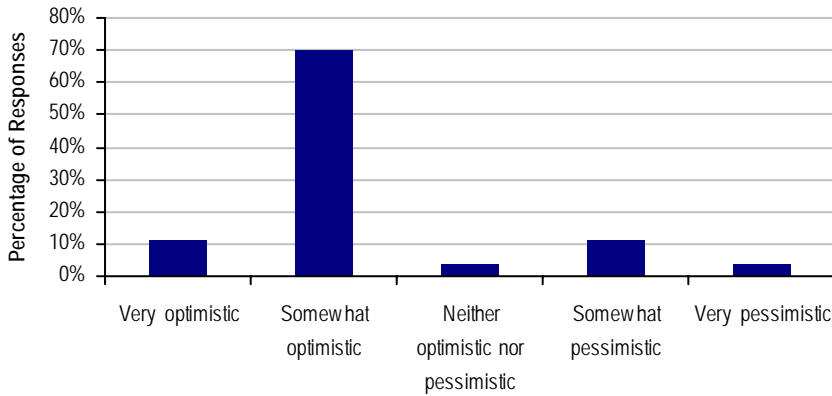
- The outlook for the E&C sector is generally optimistic.
- Utilization is running at a higher rate than we would have expected and appears to be improving.
- Not surprisingly, upstream oil & gas and LNG projects are leading the list of end markets with the most robust prospects.

Q1: Optimistic outlook for business conditions and project activity in the E&C sector

We asked: “*How do you feel about the outlook for business conditions and project activity in the E&C sector?*” Respondents were asked to select either “*Very optimistic,*” “*Somewhat optimistic,*” “*Neither optimistic nor pessimistic,*” “*Somewhat pessimistic,*” or “*Very pessimistic.*”

The outlook for the business conditions and project activity in the E&C sector remain optimistic with 81% of the respondents selecting “*Very optimistic*” or “*Somewhat optimistic*”. Roughly 15% were either “*Somewhat pessimistic*” or “*Very pessimistic*”, and the remaining 4% were neither optimistic nor pessimistic.

Chart 1: Outlook for business conditions and project activity in the E&C sector



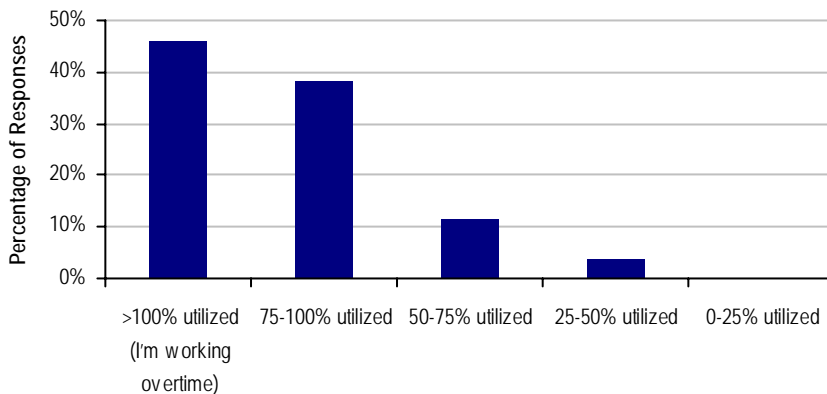
Source: Rice Global E&C Forum / UBS Engineering & Construction Survey #1

Q2: Overall utilization is higher than we would have expected

We asked: *“How is your workload today?”* Respondents were asked to select either *“>100% utilized (I’m working overtime),”* *“75%-100% utilized,”* *“50%-75% utilized,”* *“25-50% utilized,”* or *“0-25% utilized.”*

Overall utilization levels appear relatively high with 85% of the respondents classifying their workload as greater than 75% utilized. Within that 85%, a surprising 46% consider themselves more than 100% utilized. Given that margins are still under pressure in most E&C businesses, the utilization rates seem better than expected. We note that nearly 50% of the employees who responded are in the engineering / project management areas of their respective businesses (see Chart 6).

Chart 2: Utilization levels of employees in the E&C companies



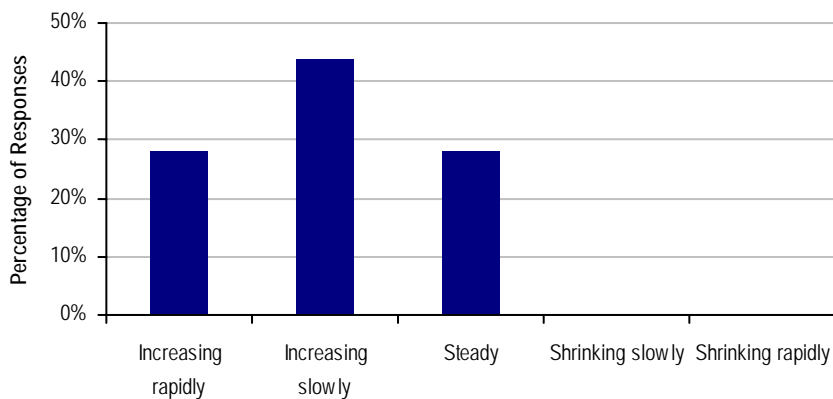
Source: Rice Global E&C Forum / UBS Engineering & Construction Survey #1

Q3: Workload is increasing

We asked: *“How is your workload changing?”* Respondents were asked to select either *“Increasing rapidly,” “Increasing slowly,” “Steady,” “Shrinking slowly,”* or *“Shrinking rapidly.”*

Even with relatively high utilization (see Chart 2 above), the workload of respondents is continuing to increase with 72% of respondents noting either a rapid or slow increase in workload. With no respondents seeing a shrinking workload, the results have a noticeably positive skew.

Chart 3: Change in workload



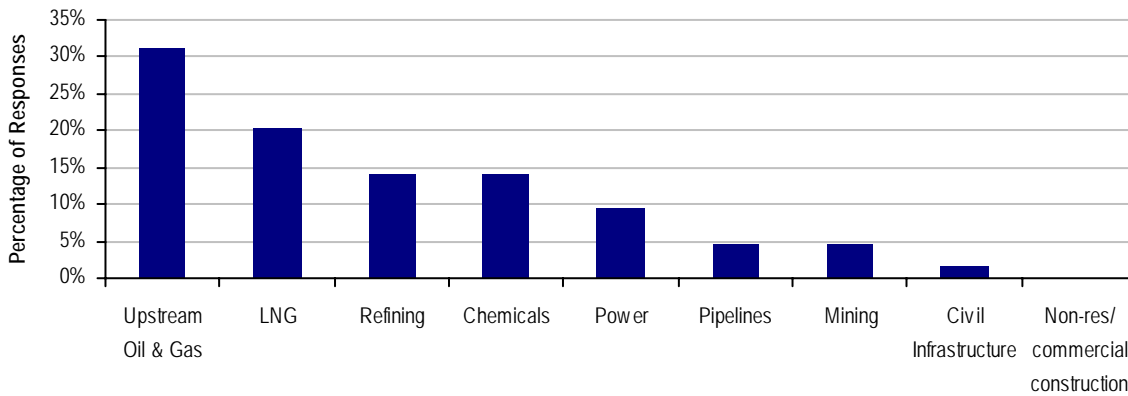
Source: Rice Global E&C Forum / UBS Engineering & Construction Survey #1

Q4: Oil & Gas sector to drive new business

We asked: *“Which three end markets do you expect to drive the most amount of new business for your company over the next 6-12 months (Please choose three)?”* Respondents were asked to select either *“Upstream oil & gas,” “LNG,” “Refining,” “Chemicals,” “Power,” “Pipelines,” “Mining,” “Civil Infrastructure,”* or *“Non-res/commercial construction.”*

Not surprisingly, the energy sector is expected to drive the bulk of new business over the coming 6-12 months. This expectation is supported by the results of our July capex survey which forecasts oil & gas capex growth of 17-24% in 2011. Civil infrastructure and non-residential work, in contrast, is expected to have the least contribution to new bookings. Mining was also a low contributor. We acknowledge that the results of this question may only be representative of the types of projects executed in Houston or by the individuals completing the survey.

Chart 4: End markets expected to drive new business in the coming 6-12 months



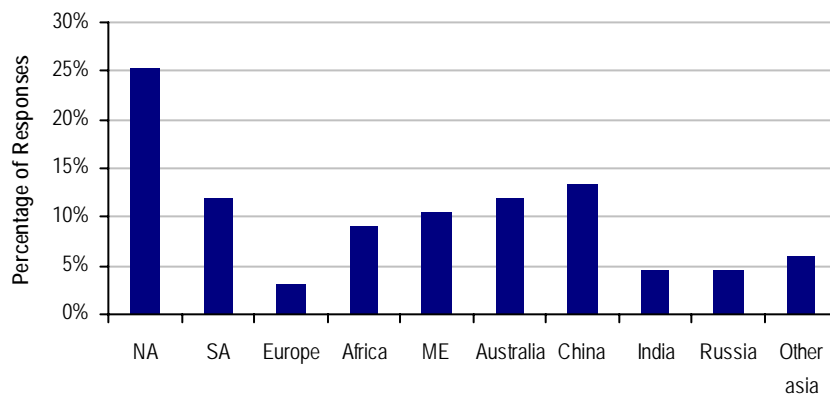
Source: Rice Global E&C Forum / UBS Engineering & Construction Survey #1

Q5: Americas to hold most of the opportunities

We asked: “Which regions do you think hold the most project opportunities over the next 6-12 months?” Respondents were asked to select either “North America (NA),” “South America (SA),” “Europe,” “Africa,” “Middle East (ME),” “Australia,” “China,” “India,” “Russia,” or “Other Asia.”

Respondents believe that most project opportunities will come from the Americas and China with 51% of respondents opting for “North America (NA),” “South America (SA),” and “China.” We acknowledge that the strong Americas response to this question may have been influenced by the fact the survey was conducted in Houston.

Chart 5: Regions with the most project opportunities over the next 6-12 months



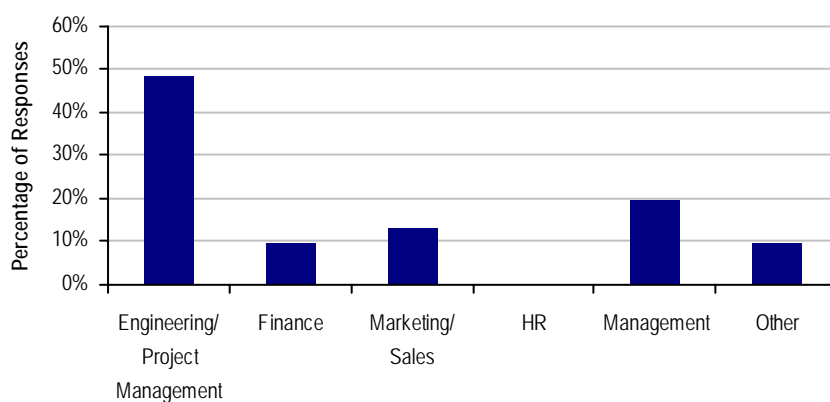
Source: Rice Global E&C Forum / UBS Engineering & Construction Survey #1

Respondent Background: Most work in Engineering / Project Management

We asked: “What area of the business do you work in?” Respondents were asked to select either “Engineering / Project Management,” “Finance,” “Marketing / Sales,” “HR,” “Management,” or “Other.” Some respondents selected more than one area.

Most of the respondents work in the Engineering / Project Management area of the business. This profile lends support to the utilization statistics we discuss in Question 2 and 3.

Chart 6: Business area of respondents



Source: Rice Global E&C Forum / UBS Engineering & Construction Survey #1

■ Statement of Risk

The primary risks to the sector include potential declines in commodity prices (particularly oil), slowing US and global economic activity, weaker than expected industrial and non res construction markets, failure to execute on backlogs/cost overruns on fixed price contracts, potential for constrained growth due to rising construction costs and labor availability

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| UBS 12-Month Rating | Rating Category | Coverage ¹ | IB Services ² |
|-----------------------|-----------------|-----------------------|--------------------------|
| Buy | Buy | 54% | 39% |
| Neutral | Hold/Neutral | 39% | 35% |
| Sell | Sell | 7% | 14% |
| UBS Short-Term Rating | Rating Category | Coverage ³ | IB Services ⁴ |
| Buy | Buy | less than 1% | 33% |
| Sell | Sell | less than 1% | 25% |

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2011.

UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating | Definition |
|-----------------------|---|
| Buy | FSR is > 6% above the MRA. |
| Neutral | FSR is between -6% and 6% of the MRA. |
| Sell | FSR is > 6% below the MRA. |
| UBS Short-Term Rating | Definition |
| Buy | Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. |
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Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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