Chicago Bridge & Iron Company N.V. (CBI-NYSE)

SUMMARY
Chicago Bridge & Iron has benefited from rising worldwide demand for energy infrastructure, especially in the LNG, gas processing and oil sands markets. The company has a strong backlog driven by significant new order wins. Additionally, the company declared that the funding for its MOX project is to be continued. However, prevailing geopolitical uncertainty, stiff competition in the industry and tanking oil prices remain concerns for the company's business. Hence we are reiterating our neutral recommendation.

SUMMARY DATA

- Risk Level *: Above Avg.,
- Type of Stock: Large-Value
- Industry: Bldg-Heavy Cnst
- Zacks Industry Rank *: 179 out of 267
- Current Recommendation: NEUTRAL
- Prior Recommendation: Outperform
- Date of Last Change: 09/22/2013
- Current Price (01/16/15): $40.17
- Target Price: $42.00
- 52-Week High: $87.65
- 52-Week Low: $37.78
- One-Year Return (%): -50.82
- Beta: 1.88
- Average Daily Volume (sh): 1,793,283
- Shares Outstanding (mil): 108
- Market Capitalization ($mil): $4,338
- Short Interest Ratio (days): 2.63
- Institutional Ownership (%): 67
- Insider Ownership (%): 1
- Annual Cash Dividend: $0.28
- Dividend Yield (%): 0.70
- 5-Yr. Historical Growth Rates:
  - Sales (%): 31.8
  - Earnings Per Share (%): 25.6
  - Dividend (%): 33.5
- P/E using TTM EPS: 8.1
- P/E using 2015 Estimate: 7.0
- P/E using 2016 Estimate: 6.5
- Zacks Rank *: Short Term 1 – 3 months outlook: 4 - Sell

ZACKS CONSENSUS ESTIMATES
Revenue Estimates (In millions of $)

<table>
<thead>
<tr>
<th></th>
<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
<th>Q3 (Sep)</th>
<th>Q4 (Dec)</th>
<th>Year (Dec)</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>2,251 A</td>
<td>2,851 A</td>
<td>2,992 A</td>
<td>3,000 A</td>
<td>11,094 A</td>
</tr>
<tr>
<td>2014</td>
<td>2,928 A</td>
<td>3,294 A</td>
<td>3,381 A</td>
<td>3,447 E</td>
<td>13,050 E</td>
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<td>2015</td>
<td>3,449 E</td>
<td>3,639 E</td>
<td>3,708 E</td>
<td>3,751 E</td>
<td>14,547 E</td>
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<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
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<td>14,969 E</td>
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Earnings Per Share Estimates (EPS is operating earnings before non-recurring items, but including employee stock options expenses)

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<th></th>
<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
<th>Q3 (Sep)</th>
<th>Q4 (Dec)</th>
<th>Year (Dec)</th>
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<tr>
<td>2013</td>
<td>$0.82 A</td>
<td>$1.04 A</td>
<td>$1.12 A</td>
<td>$1.20 A</td>
<td>$4.18 A</td>
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<td>2014</td>
<td>$0.87 A</td>
<td>$1.36 A</td>
<td>$1.51 A</td>
<td>$1.43 E</td>
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<td>2015</td>
<td>$1.33 E</td>
<td>$1.40 E</td>
<td>$1.48 E</td>
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<td>$5.72 E</td>
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<td>2016</td>
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<td>$6.16 E</td>
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Projected EPS Growth - Next 5 Years %: 12

* Definition / Disclosure on last page
OVERVIEW

Chicago Bridge & Iron Company N.V. is among the world’s leading integrated engineering, procurement and construction service provider and major process technology licensors, providing comprehensive solutions to customers primarily in the energy and natural resource industries. For fiscal 2013, the company reported consolidated revenues of $11.1 billion growing a robust 102% versus fiscal 2012.

In fiscal 2013, Chicago Bridge formally completed the acquisition of The Shaw Group Inc for $3.4 billion. This acquisition will expand its portfolio of engineering and construction projects and is also expected to boost its nuclear building services. The Shaw Group primarily serves sectors like energy, chemicals, power, environmental, infrastructure and emergency response industries.

Following this acquisition, the company now since the beginning of 2013, offers services under four operating groups:

Engineering, Construction and Maintenance: This segment provides engineering, procurement and construction (EPC) services for major energy infrastructure facilities. This segment also offers comprehensive and integrated maintenance services and includes the company’s Oil and Gas business unit (formerly the Project Engineering and Construction segment) and Shaw’s former Power and Plant Services segments. Projects for this operating group primarily comprise nuclear, fossil and renewable electric generating plants for the power industry and upstream and downstream process facilities for the oil and gas industry, such as refinery process units and petrochemical facilities, as well as Liquefied Natural Gas liquefaction and regasification terminals.

Fabrication Services: Fabrication Services provides fabrication of piping systems, process and nuclear modules, and fabrication and erection of storage tanks and pressure vessels for the oil and gas, petrochemicals, water and wastewater, mining, mineral processing and power generation industries. This operating group includes the Steel Plate Structures business unit (formerly the Steel Plate Structures segment) and Shaw’s former F&M segment. Projects for this operating group include above ground storage tanks, LNG tanks, pressure vessels, elevated water storage tanks, other specialty structures, such as nuclear containment vessels and process and nuclear modules, as well as fabrication of piping and structural steel, induction bending and module prefabrication and assembly.

Technology: Technology provides licensed process technologies, catalysts, specialized equipment and engineered products for use in petrochemical facilities, oil refineries, coal gasification plants and gas processing plants and offers process planning and project development services, and a comprehensive program of aftermarket support. This operating group primarily consists of the company’s former Lummus Technology segment.

Government Solutions: Government Solutions provides design-build infrastructure projects for federal, state and local governments, design-build services for marine and transportation projects and full-scale environmental services for government and private sector clients, including remediation and restoration of contaminated sites, emergency response, and disaster recovery. This operating group primarily consists of Shaw’s former E&I segment.

REASONS TO BUY

- Chicago Bridge & Iron has a broad diversity within the entire energy project spectrum, with a significant portion (approx 55%) of revenues generated from projects outside the U.S. The geographic mix of revenue is expected to grow with constant shifts in future global energy demand. Investment in steel plate structures and energy processes projects are expected to remain strong in many parts of the world. In addition, investments across the natural gas value chain, especially gas
processing and LNG continue to be lucrative. The increased investments in the U.S. oil and gas sector, development of new technologies and strategic investments like E-Gas solid gasification technology benefited the company's business in the quarter. CBI is expected to benefit from the strong and growing energy infrastructure market, especially the liquefied natural gas (LNG). LNG is the company's strongest market, supported by its ability to participate in multiple stages of development and strong base for investments.

- Chicago Bridge & Iron is one of the few engineering, procurement and construction (EPC) and process technology contractors with in-house fabrication facilities, which allow it to offer customers the option of modular construction, wherever feasible. Modular construction, in contrast to the traditional onsite "stick built" construction, enables modules to be built within a tightly monitored shop environment and allows better quality control, minimizes weather delays and expedites schedules. This leads to faster lead times ultimately bringing in repeat orders. In the reported quarter, new award wins for the segment totaled nearly $479 million.

- Chicago Bridge & Iron is the leader in the LNG storage niche market. The company plans to aggressively capture market share in the area of LNG/low temperature storage systems (petrochemicals), an area where CB&I. In addition, the waste and waste water tanks, mineral processing storage and power applications such as liquefaction/vaporization and storage facilities are expected to be particularly strong in emerging markets, where the most industrial and infrastructure growth is expected. CB&I has been expanding into the mining sector, which should provide additional opportunities and some sector/geographic diversification around oil & gas. Recently, the company received new orders for storage solutions in regions like Middle East and Asia.

- Chicago Bridge continues to evaluate potential acquisitions of companies with strong management teams and good reputation to expand its area of operation and portfolio of services. Moreover, the company continuously leverages its core expertise and pursues new business opportunities, including renewable energy projects, gas gathering and pipeline installations in the government and international arenas. The company is expecting its business to benefit significantly from the successful integration of The Shaw Group, which was acquired last year. In 2013, CBI had also acquired the E-Gas Technology business from Phillips 66.

**REASONS TO SELL**

- The company operates in a highly competitive industry, which already boasts numerous small owner-operated private companies, some public companies and several large regional companies. Low barriers-to-entry in the industry and adequate financial resources and access to technical expertise may increase competition for the company.

- Taking into account the nature of the company's contracts, Chicago Bridge & Iron sometimes commits resources to projects prior to receiving payments from the client which is sufficient to cover the day to day expenditures. In adverse economic conditions, a few clients may find it difficult to pay off debts in a timely manner, increasing the risk of bad debts which are ultimately written off. Therefore, the company might end in liquidity problems.

- CBI's contracts are usually long cycle in nature. The business is dependent upon major construction projects or FEED contracts which take long to complete. Therefore, unpredictable timing between the contract win and payment may result in significant fluctuations in cash flow and earnings. In addition, delays in the timing of the awards or potential cancellations of prospects as a result of economic conditions, material and equipment pricing and availability or other factors could impact the company's long term results.
CBI is highly prone to be impacted by the prevalent volatility in oil prices as it can lead to reduced capital spending which in turn may affect its projects and orders. Also, if the prices drop too low, some of the oil producing companies may go out of the business. This can have significant negative impacts for CBI given its presence in the natural gas and petrochemical markets including those for upgrading refineries.

RECENT NEWS

**Chicago Bridge & Iron: Funding for MOX Project to Continue** - Dec 15, 2014

Chicago Bridge & Iron announced that the U.S. Congress has affirmed that it will continue funding for the company's Mixed Oxide Fuel Fabrication Facility ("MOX") project. The facility is located at the Savannah River Site in South Carolina. As per the omnibus 2015 bill of the Congress, amount of approximately $345 million will be allocated for the construction of the MOX project. This apart, the fund will have to be utilized for the continued construction of the facility in 2015 itself.

This will ensure the continuation of this crucial nuclear project in the next year and therefore is a positive for the company.

**Chicago Bridge & Iron's CA05 for V.C. Summer Nuclear Unit** - Dec 12, 2014

Chicago Bridge & Iron recently announced that it has successfully completed the placement of the CA05 structural module for the V.C. Summer Unit 2 nuclear island.

The placement was completed in collaboration with Westinghouse, SCANA Corp. and the co-owner, Santee Cooper, the state-owned utility company.

CA05 is part of the chemical and volume control system tunnel and the passive core cooling system walls inside the containment vessel. The steel plates of the module were strengthened by filling it with concrete, so as to enable the 80,000-pound CA05 to offer structural support for the containment building.

CBI and Westinghouse, together, are constructing a couple of AP1000 nuclear electric-generating units, each with a capacity of 1,117 megawatt. The placement is one of the key achievements at the V.C. Summer Nuclear Station located near Jenkinsville, SC. The aforementioned units, among the very few to be built in the U.S. over the last three decades, are expected to generate employment opportunities for as many as 600 to 800 people, going ahead.

**Chicago Bridge & Iron on a Deal Winning Spree** - Nov 13, 2014

Chicago Bridge & Iron recently received three separate contracts. The first contract was awarded by an affiliate of Calpine Corp. for the initial development phase of a 760 megawatt combined-cycle gas turbine power station in Peach Bottom Township, PA. The financial details of the contract have been kept under wraps.

Meanwhile, on the same day, the company received another deal worth $40 million from Coffeyville Resources Refining & Marketing LLC. Per this contract, CBI is required to provide engineering, procurement, fabrication and field construction services for a hydrogen plant at Coffeyville’s refinery in Kansas. This facility will have a daily production capacity of 22 million standard cubic feet of hydrogen. However, the news had no impact on the investors and the stock price remained steady.
In addition, on Nov 10, CBI received a contract valued over $100 million from Arizona Public Service. The scope of this contract requires CBI to provide maintenance and modification services to all the fossil power generation facilities in Arizona and New Mexico. CBI is among the world's leading integrated engineering, procurement and construction service providers and process technology licensors, offering comprehensive solutions to customers, primarily in the energy and natural resource industries.

**Chicago Bridge & Iron Beats Q3 Earnings** - Sep 30, 2014

Chicago Bridge & Iron reported third-quarter 2014 results with adjusted earnings of $1.51 per share surpassed the Zacks Consensus Estimate of $1.39 per share by 8.63%. The bottom line also marked an increase of 34.8% from $1.12 a share earned in the prior-year quarter. On a GAAP basis, earnings per share increased about 37% year over year to $1.48.

Results were driven by key factors including growing demand for energy across the globe, diligent operational execution coupled with increased focus on safety

**Total Revenue & Contracts**

Revenues for the quarter rose 13% year over year to $3,380.7 million. The rise was attributable to strong performance of the company's Engineering, Construction and Maintenance segment, which came on the back of increased demand for energy infrastructure, especially in the LNG, gas processing and oil and gas markets throughout the world. However, revenues lagged the Zacks Consensus Estimate of $3,440 million.

New contracts for the third quarter totaled $3.0 billion, driven by strength in oil and gas projects in North America and technology demand in Asia Pacific and the Middle East. Fabrication activity also remained robust in the Middle East region. Year to date, CBI has won new contracts worth $13 million. At the end of the third quarter, the backlog level stood at $30.7 billion.

**Segment Revenues**

The **Engineering, Construction and Maintenance** segment's revenues grew 24.2% year over year to $2,370.3 million. The increase was driven by a significant improvement in the end markets. The segment received new awards worth $1,761.7 million in the quarter.

**Fabrication Services** reported third-quarter 2014 revenues of $631.5 million, reflecting a decline of 10.7% year over year. However, new award wins for the segment totaled nearly $479 million in the quarter.

**Technology** segment's revenues also decreased 7% to $145 million. Nevertheless, the segment won over $387.5 million worth new contracts in the quarter.

The **Environmental Solutions** segment sales climbed 5.7% year over year to about $234 million. The segment received new contracts worth $347.8 million.

**Margin**

Gross profit for the quarter improved 24.2% year over to $393.2 million while gross margin increased 100 basis points (bps) year over year to 11.6%. Operating income was $286.1 million, up 41.5 % year over year. Operating margin also increased 170 bps to 8.5%.
Other Financial Details

CBI’s current assets amounted to $3,393.8 million as on Sep 30, 2014, a marginal increase from $3,389.6 million of Dec 31, 2014. The company had shareholders' equity of nearly $2,866.8 million, along with long-term debt of about $1,591.2 million.

Cash flow from operating activities for the nine-month period ended Sep 30, 2014 was negative $349.3 million, compared with negative $194 million recorded in the prior-year period.

Looking Ahead

The company remains optimistic about its strong fundamentals. However, the ongoing geopolitical uncertainty and declining oil prices remains a concern for the near term.

VALUATION

Currently, shares of Chicago Bridge are trading at 8.1X TTM earnings, a discount to the peer group average of 36.6X and the S&P 500 average of 18.3X. Over the last five years, shares have traded in the range of 8.5X to 20.6X trailing 12-month earnings.

We are maintaining our Neutral recommendation on the stock as we expect it to perform in-line with the broader market. Our target price is $42.00 (7.3X 2015 EPS).

Key Indicators

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<tr>
<th>Chicago Bridge &amp; Iron Company N.V. (CBI)</th>
<th>P/E  F1</th>
<th>P/E  F2</th>
<th>Est. 5-Yr EPS Gr%</th>
<th>P/CF (TTM)</th>
<th>P/E  (TTM)</th>
<th>P/E  5-Yr High (TTM)</th>
<th>P/E  5-Yr Low (TTM)</th>
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<td>Industry Average</td>
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<td>6.6</td>
<td>8.1</td>
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<td>8.5</td>
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<td>S&amp;P 500</td>
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<td>China Railway Construction Corporation Ltd. (CWYCY)</td>
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<td>Emcor Group Inc (EME)</td>
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<td>MasTec, Inc. (MTZ)</td>
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<td>5.0</td>
<td>11.9</td>
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<td>TTM is trailing 12 months; F1 is 2015 and F2 is 2016, CF is operating cash flow</td>
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<td>Chicago Bridge &amp; Iron Company N.V. (CBI)</td>
<td>P/B Last Qtr.</td>
<td>P/B 5-Yr High</td>
<td>P/B 5-Yr Low</td>
<td>ROE (TTM)</td>
<td>D/E Last Qtr.</td>
<td>Div Yield Last Qtr.</td>
<td>EV/EBITDA (TTM)</td>
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<td>1.6</td>
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</table>
Earnings Surprise and Estimate Revision History

CHICAGO BRIDGE (V) Price

EPS Surprises

2015 Consensus
2014 Consensus
2013 Consensus
2012 Consensus
2011 Consensus

Price ($)
DISCLOSURES & DEFINITIONS

The analysts contributing to this report do not hold any shares of CBI. The EPS and revenue forecasts are the Zacks Consensus estimates. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. Outperform- Zacks expects that the subject company will outperform the broader U.S. equity market over the next six to twelve months. Neutral- Zacks expects that the company will perform in line with the broader U.S. equity market over the next six to twelve months. Underperform- Zacks expects the company will underperform the broader U.S. Equity market over the next six to twelve months. The current distribution of Zacks Ratings is as follows on the 1111 companies covered: Outperform - 15.3%, Neutral - 78.0%, Underperform – 6.1%. Data is as of midnight on the business day immediately prior to this publication.

Our recommendation for each stock is closely linked to the Zacks Rank, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy. Zacks Rank 2 = Buy. Zacks Rank 3 = Hold. Zacks Rank 4 = Sell. Zacks Rank 5 = Strong Sell. We also provide a Zacks Industry Rank for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining Risk Level, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock's historical price volatility. The first group has stocks with the lowest values and are deemed Low Risk, while the 5th group has the highest values and are designated High Risk. Designations of Below-Average Risk, Average Risk, and Above-Average Risk correspond to the second, third, and fourth groups of stocks, respectively.