

Parent: McDermott International,

Sector: Engineering & Construction

Spinoff: The Babcock & Wilcox Co.

Sector: Industrials

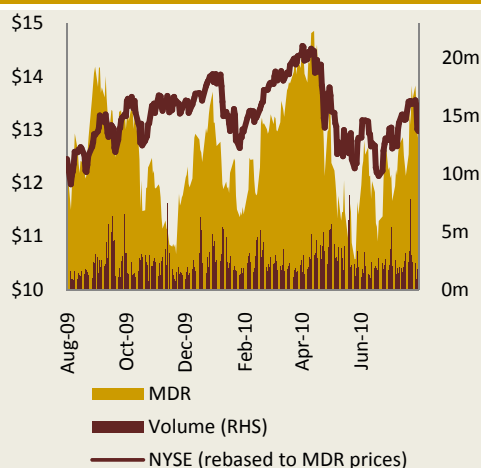
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US Spinoff Report™

Valuations of Corporate Divestitures

Target price & risk-MDR and BWC

Target price MDR/BWC	\$17/\$28
Share price (last close) MDR/BWC	\$13/\$22
Horizon (months)	12
Risk	Medium

Performance & EV-MDR

Return 5d/YTD/1Y (%)	-7.1/3.7/8.7
Volatility 30d/90d/200d (%)	50/53/46
High/Low 1Y (\$)	14.9/9.9
Avg d turn 30d/90d (\$ m)	65.1/65.4
Market Cap (\$ m)	3,026
Net IB Debt (\$ m)	(481)
Enterprise value (\$ m)	2,587

Miscellaneous-MDR

Spinoff announcement date	Dec 7, 2009
Effective record date	July 30, 2010
Majority shareholder	T. Rowe Price Associates.
Listing Exchange	NYSE
Ticker/Bloomberg	MDR /MDR US
O/S shares m (incl Class B)	232
Div Yield FY09 in%	NA
Free float in %	98.8

Key figures and ratios (\$ m)

Pro Forma	MDR (ex Spinoff)			BWC		
	2009	2010E	2011E	2009	2010E	2011E
Operating revenues	3,338	2,944	3,356	2,855	2,769	2,985
Revenue growth (%)	5.2%	-11.8%	14.0%	-16.0%	-3.0%	7.8%
EBITDA	362	391	462	352	356	437
EBITDA (%)	10.8%	13.3%	13.8%	12.3%	12.9%	14.6%
Adj. EBIT	277	318	378	279	279	350
NOPLAT	227	261	310	195	195	245
Adj. Net income	232	254	308	164	167	220
Adj. EPS from cont. operations(\$)	1.00	1.08	1.31	1.41	1.44	1.90
Return on Assets (%)	10.1%	11.6%	13.8%	7.5%	7.5%	9.4%
Return on Equity (%)	13.8%	15.1%	18.3%	135.9%	138.4%	182.5%
Return on Invested Capital (%)	13.0%	14.9%	17.7%	NM	NM	NM
EV/EBITDA	7.2x	6.6x	5.6x	NM	7.9x	6.5x
P/E	13.0x	11.9x	9.8x	NM	15.6x	11.8x

McDermott Spins Off Valuable Government & Power Arm: BWC. Visible Upside for Both Companies Created

The Spinoff of the Power Generation and Government Operations segments (Babcock & Wilcox) from McDermott on August 2nd, 2010, leaves MDR (ex Spinoff) as a pure-play offshore Oil & Gas (O&G) construction company giving investors an option to take exposure in two different end markets. The recent regulation adopted by Federal Acquisition Regulations (FAR) in July 2009, prohibiting US federal agencies from awarding new contracts to "inverted" companies (i.e. companies incorporated outside the US) and its subsidiaries triggered the Spinoff, as BWC being a subsidiary of parent company MDR (which is incorporated in Panama) risked losing lucrative Government contracts (constituting 16.6% of consolidated FY09 revenue and 24.6% of operating income).

MDR: McDermott – Pure play offshore O&G construction company

McDermott operating through its subsidiary J. Ray McDermott will become a pure-play O&G construction company with an exposure to one of the most favorable offshore E&C end markets. A strong order backlog (\$4.3bn as on 2QFY10), improving tender activity (\$4bn of bids outstanding as at 2QFY10), scope for margin expansion (through increasing exposure into high margin deep water segment), significant future prospects from Middle East, Australia, and Asia (from an upturn in capital spending in offshore O&G developments and steady oil demand) scores positive for MDR. **A cheap valuation (FY11 PE of 9.8x) against its peers (trading at FY11 PE of 13.2x) makes MDR an attractive Absolute Buy recommendation with a target price of \$17, implying an upside of 33.1%.**

BWC: Babcock & Wilcox - free from inverted status gives new breather

BWC will be free from an inverted company status thereby de-risking itself from the non-eligibility clause for future participation in lucrative Government contracts and renewal of existing contracts. We believe that BWC is strongly positioned to benefit from the stable, non-cyclical Government generated business (36.1% of FY09 revenue). While the Power segment business (63.9% of FY09 revenue) remains a drag in the near term (we don't expect an upturn in the capital spending for Power till mid-2011) regulatory uncertainties remain unclear. Though we gain confidence in the medium term opportunities for we expect an uptick in environmental retrofitting work as the new EPA emissions standards are put in place with longer term opportunities arising from the development of BWC's mPower modular nuclear solution. **We expect BWC to outperform given its favorable mix of aftermarket and services business and recommend a Buy rating with a target price of \$28.**