Zacks Equity Research

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NATL-OILWELL (NOI-NYSE)

Current Rating	**Buy**
Prior Rating	Hold
Date of Last Change	03/03/2003
Current Price (03/19/03)	$22.40
Target Price	$26.00

OUTLOOK

We are raising our 2003 earnings estimate for NOI from $1.12 to $1.16 and for Year 2004 from $1.50 to $1.54. We are lowering 2003 revenue estimates from $1,966M to $1,847M. Our positive outlook for NOI remains strong due to anticipated demand for oil services in the Middle East, increased demand for gas drilling, solid acquisitions and the commodity price environment.

SUMMARY DATA

52 Week High	**$28.81**
52 Week Low	**$15.19**
One Year Return (%)	**-6.23**
Beta	**1.52**
Average Daily Volume (1000s)	**518,363**
Shares Outstanding (mil)	**84**
Market Capitalization ($mil)	**$1,1882**
Short Interest Ratio (days)	**4.54**
Institution Ownership (%)	**84.10**
Insider Ownership (%)	**9%**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
PE using 12 months EPS	**25.17**
Historical Growth Rates	
Sales (%)	**12.18**
Earnings Per Share (%)	**-2.37**
Dividend (%)	**N/A**
P/E using 2003 Estimate	**19.31**
P/E using 2004 Estimate	**14.55**

Risk Level	**AVERAGE**
Type of Stock	**Mid-Blend**
Industry	**OIL FLD MCH&EQP**
Company Rank in Industry	**17 of 27**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2001	360 A	435 A	487 A	466 A	1,747 A
2002	389 A	372 A	367 A	394 A	1,522 A
2003	463 E	474 E	498 E	530 E	1,847 E
2004	N/A E	N/A E	N/A E	N/A E	2,187 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2001	$0.26 A	$0.31 A	$0.36 A	$0.35 A	$1.27 A
2002	$0.26 A	$0.21 A	$0.22 A	$0.21 A	$0.89 A
2003	$0.25 E	$0.27 E	$0.30 E	$0.32 E	$1.16 E
2004	N/A E	N/A E	N/A E	N/A E	$1.54 E

Zacks Projected EPS Growth Rate- Next 5 Yrs	**19**
Consensus Projected EPS Growth - Next 5 Years %	**25**

KEY POINTS

- Oil service companies in general can expect significant opportunities for increased growth due to the pending war on Iraq.
- Analysts project strong U.S. natural gas prices beyond the winter heating season. The supply of natural gas has declined due to the recent cold weather and the slump in gas drilling.
- The U.S. rig count will accelerate from 8 to 13% by mid-year 2003 and analysts expect to see signs that oil service companies will raise prices for rigs and other drilling services.
- NOI's fourth quarter financial results were in line with the prior quarter, a testament to the company's ability to remain solidly profitable in a depressed drilling market.
- The company's Hydralift and Mono Pumps acquisitions are expected to increase revenues in 2003 by approximately $425 million and pre-tax income by approximately $30-$35 million.

OVERVIEW

Incorporated in 1987, National-Oilwell, Inc. is engaged in the design, manufacture and sale of comprehensive systems and components used in oil and gas drilling and production, as well as in providing supply chain integration services to the upstream oil and gas industry. The Company operates in two business segments: 1) Products and Technology designs, manufactures and sells drilling systems and components for both land and offshore drilling rigs and 2) Distribution Services which sells a variety of expendable items for oilfield applications and spare parts for the company's proprietary equipment though its network of 150 distribution service centers.

Fourth quarter 2002 net income was $17 million, or $0.21 per diluted share, compared to roughly 18 million, or $0.22 per diluted share, in the third quarter. Revenues were $394 million for the period compared to third quarter revenues of $367 million. Full year revenues and net income of $1,522 million and $73 million, $0.89 per diluted share, compare to 2001 results of $1,748 million and $104 million, $1.27 per diluted share.

These financial results and activity levels were generally in line with the prior quarter, as were activity levels. Operating margins for Products and Technology Group and Distribution Services Group were comparable with results achieved in the prior two quarters. The company's ability to remain solidly profitable in a depressed drilling market and their long-term strategy of consolidating cost efficient acquisitions are indicative of the company's financial strength and viability.

INDUSTRY OUTLOOK

To restore Iraq's oil industry, the second biggest in reserves after Saudi Arabia, oil services can expect significant opportunities for increased growth. Analysts predict Iraq's oil industry will likely enter a "stabilization phase" after the end of the war, when an assessment of the condition of the country's 3,000 oil wells will take place. In a recent Deutsche Bank report, it is estimated that between $1 billion to $1.5 billion in business will go to the oil services sector. The Bush administration's decision this month to favor U.S. companies for contracts worth $900 million to rebuild Iraq after the war will lead to further exploitation of the oil industry.

Oil prices slid 9.5% on March 18th on news of the pending war on Iraq, easing market uncertainty over the conflict, which had kept prices at high levels for weeks. U.S. crude futures plunged $3.53 to a two-month low of $31.40 per barrel, before closing at $31.67. In London, international benchmark Brent crude oil slumped by $2.23, or 7.6 percent, to $27.25 per barrel. U.S. crude prices have fallen more than $8 from a late February peak just below $40 a barrel, a level not seen since the 1990-91 Gulf War crisis.

However, the Middle East supplies 40% of oil and an invasion would almost certainly close Iraqi crude output of 2.5 million barrels per day. Moreover, a cold northern winter and prolonged supply hitch from Venezuela have drained inventories. Meanwhile, the OPEC oil cartel has little spare production capacity to cover further supply disruption. All these factors bode well for further commodity price increases.

As of February, natural gas prices climbed to above $6.00/Mcf. Natural gas prices have soared primarily because of the slump in gas drilling and resulting shortage of inventories. Analysts predict that the U.S. rig count will accelerate from 928 to the 1,000-1,050 range by mid-year 2003 and the oil service companies will raise prices for rigs and other drilling services. Moreover, the number of active gas rigs has remained well below the level needed to find and develop as much gas as is being produced and sold.

INDUSTRY POSITION

NOI has been able to remain profitable in a depressed drilling market. One of their strategies is cost effective acquisitions such as the recent Hydralift ASA. Under the terms of the agreement NOI made a cash tender offer to acquire all of the outstanding shares of Hydralift. The total value of the transaction, including the assumption of debt, is approximately $300 million. The Hydralift and Mono Pumps acquisitions are expected to increase revenues in 2003 by approximately $425 million and pre-tax income by approximately $30-$35 million. The Mono Pump acquisition also increased common shares outstanding by 3.2 million.

Moreover, NOI can expect significant opportunities for increased growth due to the looming war on Iraq, projected commodity price increases and anticipated demand for rigs and other drilling services.

Top 5 Public Companies in the industry

Ticker	***Company***	**Market Share**	***Zacks Rating***
BHI	Baker-Hughes	23%	Sell
SII	Smith Intl	14%	Hold
WFT	Weatherford Int	11%	Hold
FTI	Fmc Tech Inc	9%	Hold
MDR	Mcdermott Intl	9%	Strong Sell

RECENT NEWS

In January the company announced that it has entered an agreement to acquire the Mono pumping products business from Halliburton Energy Services through the purchase of all the outstanding stock of Monoflo, Inc. in the United States and Mono Group in the United Kingdom. Mono is a worldwide manufacturer of power sections for downhole drilling motors, downhole artificial lift pumps and services the oilfield, industrial and agricultural markets. Consideration for the acquisition included $22.65 million in cash and 3.2 million shares of NOI Common Stock.

National Oilwell expects to contribute significant additional volume to the Mono business and believes the acquisition will add approximately $18 million in operating profit and be accretive by more than $0.05 per share to 2003 earnings. The company feels the acquisition will improve margins and operating profit for its non-capital business.

On March 7th, NOI filed to exchange new publicly tradable 5.65% senior notes due in 2012 for all its $200 million of outstanding similar notes. The company sold the initial notes Nov. 22, 2002, in a private placement. The company won't receive any cash proceeds from issuing the new notes, and the original notes will be retired and canceled.

VALUATION

The current price target for NOI is $26.00. The company stands to benefit from opportunities due to the looming war on Iraq, acquisitions, projected commodity price increases and the increase in U.S. rig count which will accelerate prices for rigs and other drilling services.

Our valuation of NOI is based on a three-stage dividend discount model consisting of a growth, transition, and maturity stage. With NOI, we anticipate five years of earnings growth at the projected rate of 19%.

RISKS

- Just as the political situation in Iraq can benefit the company, it can also have the opposite affect: commodity price increases will negatively impact oil refiners since the cost of commodities they need to manufacture petroleum products could be steep.

- Demand is determined by the current economics, fuel price changes and weather conditions.

- Unexpected changes in the regularity environment of midstream and intrastate pipeline industry will put pressure on earnings growth.

- The current recession and interest rate volatility can potentially impact earnings as well.

- In February, S&P affirmed its 'BBB+' corporate credit rating on the company and removed them from CreditWatch with negative implications, where they were placed on Oct. 15, 2002. However, the outlook is now negative, as the company has about $550 million of debt. S&P felt that while NOI's recent acquisitions should strengthen the company's strategic position, the incremental debt associated with the acquisitions and the prospects to reduce such debt at a time of continued weakness in global demand for rig machinery and equipment orders, could affect the company's cash flow concurrent with its increased debt leverage.

SIGNALING & OWNERSHIP

There has been some insider trading in the past three months. Hushang Ansary, a Board of Directors member, sold 138,500 shares on February 13th, 111,500 shares on February 14th, 33,400 shares on February 19th and 66,600 shares on February 21st of this year. Currently, the three largest holders of the stock are Fidelity (13%), Neuberger Berman (5%) and First Pacific Advisors (4%). Together they control in aggregate roughly 22% of the shares. As of 12/31/02, the top three purchases of NOI were Deutsche Asset Management of 1,014,727 shares, Battery March Financial Management with 402,800 shares and Mackay Shields with 386,450 shares. Top sellers as of 12/31/02 were Fortis Advisors (699,500 shares), Deutsche Investment Management (840,400 shares) and Sage Asset Management (503,800 shares).

PROJECTED INCOME STATEMENT & BALANCE SHEET

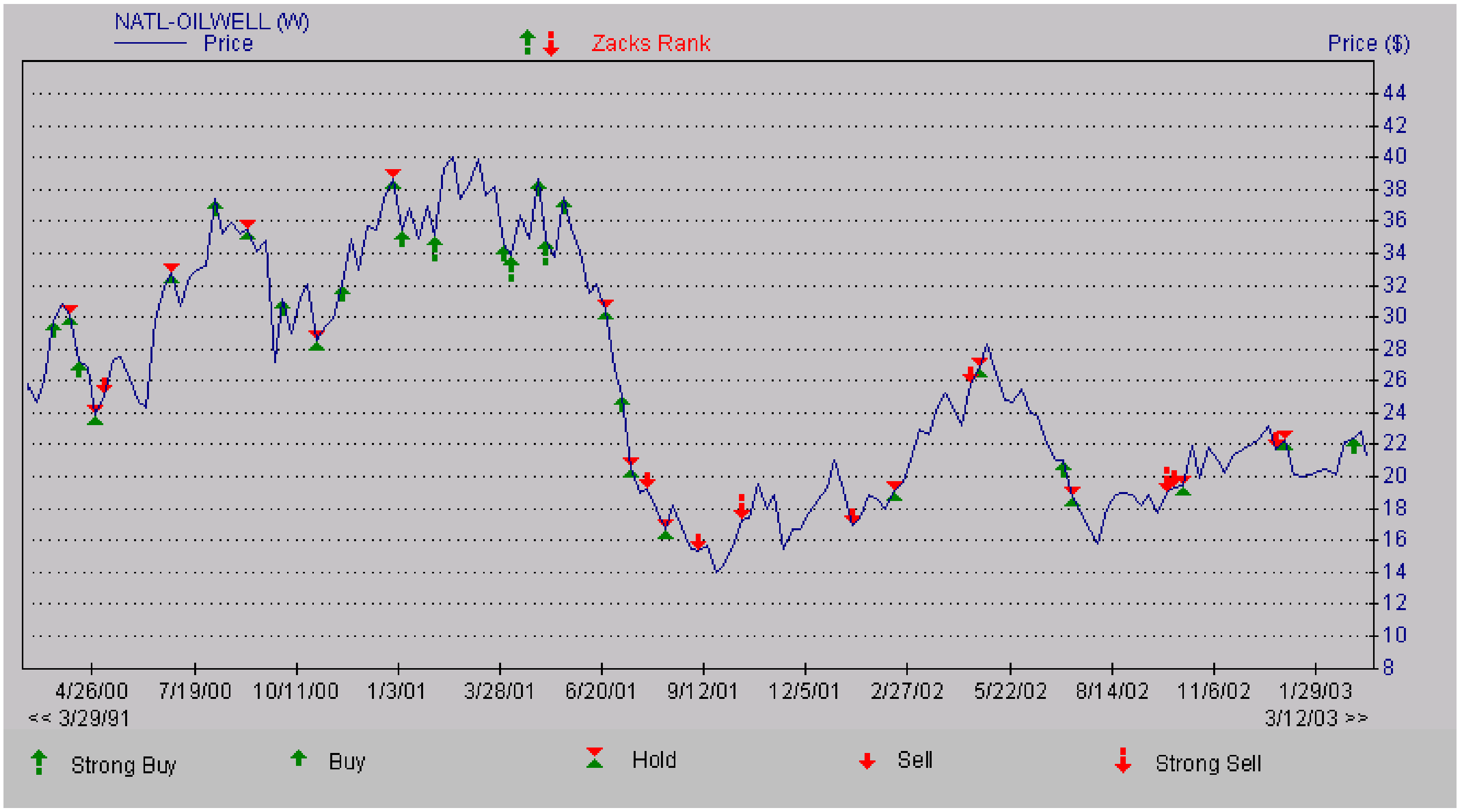
NATL-OILWELL

Income Statement and Balance Sheet

(Dollars in millions, except EPS data)

	12/98	**12/99**	**12/00**	**12/01**	**12/02**	**12/03E**
Sales	1,172	745	1,150	1,747	1,522	1,966
Cost of Goods Sold	899	604	900	1,320	1,388	1,792
SG&A	135	120	187	239	208	268
Other operating expenses	0	0	0	0	0	0
Interest and other	69	20	49	85	74	96
Zacks Adjusted Income before NRI	83	3	41	104	73	91
Net Income	69	2	13	104	73	91
Diluted EPS before NRI	1.56	0.05	0.51	1.27	0.89	1.12
Reported EPS	1.30	0.03	0.16	1.27	0.89	1.12
Cash & Marketable Securities	11	12	42	43	43	43
Current Assets	558	478	743	909	909	909
Current Liabilities	211	176	263	277	277	277
Long Term Debt	206	196	222	300	300	300
Shareholder's Equity	387	395	767	868	941	1,032

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The analyst writing this report holds no position in the company.

Zacks Rank
The Zacks 90-day Rank is a statistical model based on EPS Surprises and patterns in revisions in brokerage analyst EPS and Revenue forecasts. Details of how the Zacks Rank is calculated, its performance, and suggestions on how to best use the Zacks Rank can be found in the book *The Zacks Method*, Harper Collins, 2002, by Mitch Zacks.

Zacks EPS and Revenue Forecasts
Zacks forecasts of EPS and Revenue are based on a historical analysis of the EPS and Revenue accuracy of the brokerage analysts who have forecast EPS and Revenue over the last eight years. The Zacks EPS forecast is not the consensus forecast.