

Helmerich & Payne (HP)

\$43.85 (As of 02/05/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Helmerich & Payne is engaged in the contract drilling of oil and gas wells in the U.S. & internationally. It's technologically-advanced FlexRigs are much in demand and it has already upgraded most of its drilling feet with the latest technology. The debt levels of Helmerich are not only low on an absolute basis but also on a relative basis. The firm's leverage stands at less than 11% compared with many of its peers that are hugely burdened with debts, accounting for around 50% of their total capital structure. However, management predicts revenue days in the Offshore segment to have dropped by 30% sequentially in the fiscal Q2 of 2020. In an attempt to curb cost, H&P tightens its capex structure which in turn will lower the number wells drilled in 2020 by roughly 14% to 2,300. Hence, the stock warrants a cautious stance.

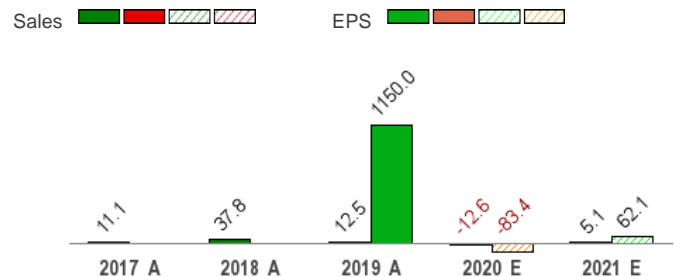
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.80 - \$35.75
20 Day Average Volume (sh)	2,569,322
Market Cap	\$4.8 B
YTD Price Change	-3.5%
Beta	1.67
Dividend / Div Yld	\$2.84 / 6.5%
Industry	Oil and Gas - Drilling
Zacks Industry Rank	Bottom 35% (167 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	85.7%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	-12.3%
Expected Report Date	04/22/2020
Earnings ESP	-14.3%
P/E TTM	27.8
P/E F1	151.2
PEG F1	6.9
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	590 E	590 E	608 E	616 E	2,569 E
2020	615 A	598 E	609 E	619 E	2,445 E
2019	741 A	721 A	688 A	649 A	2,798 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.13 E	\$0.12 E	\$0.19 E	\$0.25 E	\$0.47 E
2020	\$0.13 A	\$0.07 E	\$0.10 E	\$0.11 E	\$0.29 E
2019	\$0.32 A	\$0.66 A	\$0.40 A	\$0.39 A	\$1.75 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/05/2020. The reports text is as of 02/06/2020.

Overview

Incorporated in 1940, Helmerich & Payne Inc. is engaged in the contract drilling of oil and gas wells in the U.S. and internationally. The company supplies drilling rigs, equipment, personnel, and camps on a contractual basis to explore for and develop oil and gas from onshore areas and from fixed platforms, tension-leg platforms, and spars in offshore areas. The technologically advanced FlexRigs rigs, multi-pad drilling, hydraulic fracturing coupled with horizontal drilling, have greatly increased drilling efficiencies of the firm. Helmerich & Payne's contract drilling business consists of three business segments: U.S. Land Drilling, Offshore Drilling and International Land Drilling, while its technology-based business unit is known as H&P Technologies.

U.S. Land Drilling: As of Sep 30, 2019, the company's U.S. land drilling business consisted of 299 rigs available for work (194 under contract). Helmerich & Payne conducts its domestic land drilling primarily in Oklahoma, California, Texas, Wyoming, Colorado, Louisiana, Mississippi, Pennsylvania, Ohio, Utah, New Mexico, Montana, North Dakota, West Virginia and Nevada. The company holds leading positions in various oil/gas basins like Permian, Eagle Ford and Woodford Shale. During fiscal 2019 (twelve months ending Sep 30, 2019), the U.S. land operations contributed approximately 85% of the company's operating revenues.

Offshore Drilling: The domestic offshore drilling unit's key assets include eight rigs (six under contract). Helmerich & Payne carries out offshore drilling in the Gulf of Mexico.

International Land Drilling: This segment is primarily active in Colombia and Argentina, in addition to Bahrain and the United Arab Emirates ("UAE"). It has 20 rigs in Argentina and seven in Colombia.

H&P Technologies: This segment is involved in the development of advanced digital technologies and solutions to improve safety, reliability, and well economics for its clients.

Additionally, Helmerich & Payne is involved in the ownership, development, and operation of commercial real estate properties as well as the research and development of rotary steerable technology.



Reasons To Buy:

- ▲ As Helmerich & Payne has already upgraded most of its drilling feet with the latest technology, it currently has the youngest as well as most efficient drilling feet. In fact, Helmerich & Payne's technologically-advanced FlexRigs are actually much in demand and command strong daily rate margins, giving the firm an edge over its peers. As it is, the contract driller is relatively immune to economic turmoil as it has contracts with well-capitalized oil majors and larger independent companies.
- ▲ The debt levels of Helmerich & Payne are not only low on an absolute basis but also on a relative basis. The company's leverage stands at just 10.8% compared with many of its peers that are hugely burdened with debts, accounting for around 50% of their total capital structure.
- ▲ Helmerich & Payne's buyout of two rig technologies companies namely MagVar and Motive Drilling Technologies, which focus on precise drilling and real time monitoring/evaluation, bodes well. The transactions have not only improved the company's directional drilling performance, it enables Helmerich to drill wells more efficiently and accurately. The acquisitions are likely to give a boost to the company's 'H&P Technologies' unit created in November 2018.

Helmerich & Payne's technologically-advanced FlexRigs are able to maintain relatively strong daily-rate margins, giving the firm an edge over its peers.

Reasons To Sell:

- ▼ Disciplined capital expenditure strategy by the upstream players has created an extremely challenging operating environment for drillers like Helmerich. In fact, the CEO of the firm has already warned of the grim prospects of the firm in the upcoming quarter amid the continued conservative capex approach by the energy producers.
- ▼ Bringing in more bad news for investors, Helmerich & Payne management predicts revenue days in the Offshore segment to have dropped by 30% sequentially in the fiscal second quarter of 2020. Moreover, international land segment revenue days are assumed to witness a 7% decrease sequentially. Average rig margin per day is forecast to decline to \$6,000-\$7,000.
- ▼ A leader in the Permian Basin with a market share of 24%, the contract drilling provider is exposed to creeping service cost inflation along with pipeline pinch, which is likely to impact its performance. In an attempt to curb cost, H&P tightens its capex structure which in turn will lower the number wells drilled by roughly 14% to 2,300.

Helmerich & Payne expects reduced revenue days in the Offshore segment in the upcoming quarter, which can impact its overall results.

Last Earnings Report

Helmerich & Payne Q1 Earnings & Revenues Surpass Estimates

Helmerich & Payne Inc. recently released first-quarter fiscal 2020 results wherein it delivered a comprehensive earnings beat on the back of higher offshore rig margin and increase in revenues from the H&P Technologies segment.

The company posted adjusted quarterly earnings of 13 cents a share, surpassing the Zacks Consensus Estimate of 7 cents. However, the bottom line plunged 59.37% from the year-ago figure of 32 cents. This underperformance can be attributed to weak contributions from the U.S. Land segment.

Operating revenues of \$614.66 million topped the Zacks Consensus Estimate of \$603.16 million. However, the top line decreased 17% from the year-ago level of \$740.60 million.

Segmental Performance

U.S. Land: During the quarter, operating revenues of \$508.8 million were down 17.85% year over year as revenue days declined 19.37% to 17,684.

Rig utilization dropped 64% from the prior-year's 68%. The segment's operating profit came in at \$56.7 million compared with the year-earlier profit of \$75.7 million. However, the average rig margin per day rose 8% from the prior-year quarter to \$10,418. Moreover, rig revenue per day improved in the quarter under review.

Offshore: Revenues came in at \$40.25 million, up 9.06% from the year-ago quarter's \$36.9 million. While rig utilization and revenue days rose from the year-ago level, higher average rig expenses per day and increased direct operating expenses diminished the segment's operating profits by 12.5% to \$6.3 million from \$7.2 million in the prior-year quarter.

Although daily average rig revenues increased 23.02% from the year-ago figure, rig expense per day climbed 19.36%. Moreover, the average rig margin per day surged 32.39% year over year to \$13,237, beating the Zacks Consensus Estimate of \$12,230.

International Land: Operations generated revenues of \$46.5 million, down from \$66.3 million in the prior-year quarter on lower average rig revenue per day.

Moreover, rig utilization decreased to 57% while average rig revenue and rig margin per day decreased 22.09% and 44% each from the year-ago quarter to \$27,714 and \$7,208, respectively. The segment's bottom line resulted in an operating income of \$3.11 million, lower than \$6.63 million a year ago.

H&P Technologies: In late 2018, Helmerich & Payne had announced the creation of its new segment 'H&P Technologies' to highlight the addition of the then-acquired rig technology companies to its portfolio, namely MagVar and Motive Drilling along with Angus Jamieson Consulting, an industry leader in wellbore positioning.

Courtesy of surging demand during the reported quarter, the segment recognized revenues worth \$18.5 million, up 25.9% from the year-ago figure. Higher revenues partly offset the company's increasing direct operating expenses and depreciation, leading to the segment's narrower operating loss of \$4.5 million from the year-ago loss of \$6.4 million.

Capital Expenditure & Balance Sheet

In the reported quarter, Helmerich & Payne spent \$46.02 million on capital programs. As of Dec 31, 2019, the company had \$355.01 million in cash and cash equivalents while long-term debt was \$479.3 million (debt-to-capitalization ratio of 10.8%).

Guidance

This Tulsa, OK-based company expects activity in the U.S. land segment to remain flat to up 1.5% sequentially for second-quarter fiscal 2020. While average rig revenue per day is projected in the band of \$25,000-\$25,500, daily average rig cost is anticipated within \$14,650-\$15,150.

Coming to the offshore segment, Helmerich & Payne envisions average rig margin per day within \$10,000-\$11,000 for the fiscal second quarter and revenue days to plunge 30% sequentially.

Additionally, international land segment revenue days are assumed to witness a 7% decrease sequentially. Average rig margin per day is forecast to decline to \$6,000-\$7,000.

Revenues from HP Technologies are predicted in the \$16-\$19 million range.

For the current fiscal year, Helmerich & Payne estimates capital outlay within \$275-\$300 million.

Quarter Ending **12/2019**

Report Date	Feb 03, 2020
Sales Surprise	1.91%
EPS Surprise	85.71%
Quarterly EPS	0.13
Annual EPS (TTM)	1.58

Valuation

Helmerich & Payne shares are down 17.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 33% and 10.1%, respectively.

The S&P 500 index is up 24.8% in the past year.

The stock is currently trading at 1.93X forward 12-month sales, which compares to 0.88X for the Zacks sub-industry, 0.82X for the Zacks sector and 3.54X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.75X and as low as 1.48X, with a 5-year median of 2.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 2.06X F12M sales.

The table below shows summary valuation data for HP

Valuation Multiples - HP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.93	0.88	0.82	3.54
	5-Year High	5.75	2.48	1.44	3.54
	5-Year Low	1.48	0.79	0.67	2.54
	5-Year Median	2.8	1.49	1	3
EV/EBITDA TTM	Current	5.81	7.9	4.69	11.95
	5-Year High	169.61	13.01	10.26	12.85
	5-Year Low	NA	4.07	4.58	8.49
	5-Year Median	8.7	8.13	6.53	10.66
P/B TTM	Current	1.19	0.39	1.14	4.54
	5-Year High	1.98	0.91	1.6	4.54
	5-Year Low	0.96	0.32	1.03	2.85
	5-Year Median	1.44	0.58	1.32	3.62

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (167 out of 255)



Top Peers

Diamond Offshore Drilling, Inc. (DO)	Neutral
Nabors Industries Ltd. (NBR)	Neutral
Noble Corporation (NE)	Neutral
Precision Drilling Corporation (PDS)	Neutral
Parker Drilling Company (PKD)	Neutral
Patterson-UTI Energy, Inc. (PTEN)	Neutral
Transocean Ltd. (RIG)	Neutral
KONINKLIJKE VPK (VOPKY)	Neutral

Industry Comparison Industry: Oil And Gas - Drilling				Industry Peers		
	HP Neutral	X Industry	S&P 500	NBR Neutral	PTEN Neutral	RIG Neutral
VGM Score	D	-	-	A	A	F
Market Cap	4.81 B	348.25 M	24.26 B	824.95 M	1.64 B	3.18 B
# of Analysts	9	5	13	5	7	3
Dividend Yield	6.48%	0.00%	1.75%	1.76%	1.90%	0.00%
Value Score	C	-	-	B	A	C
Cash/Price	0.09	0.44	0.04	0.56	0.11	0.88
EV/EBITDA	9.07	3.92	14.19	6.44	3.03	-43.40
PEG Ratio	6.88	9.27	2.04	NA	NA	NA
Price/Book (P/B)	1.21	0.33	3.31	0.35	0.56	0.27
Price/Cash Flow (P/CF)	6.32	3.42	13.70	1.61	1.74	5.65
P/E (F1)	150.76	16.46	19.17	NA	NA	NA
Price/Sales (P/S)	1.80	0.42	2.67	0.26	0.59	1.05
Earnings Yield	0.66%	-17.08%	5.22%	-39.21%	-17.08%	-16.35%
Debt/Equity	0.12	0.76	0.71	1.50	0.34	0.76
Cash Flow (\$/share)	6.94	0.62	6.92	1.41	4.85	0.92
Growth Score	C	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	-27.87%	-34.19%	10.80%	NA	NA	-50.60%
Proj. EPS Growth (F1/F0)	-83.24%	14.24%	7.35%	38.82%	-45.31%	35.44%
Curr. Cash Flow Growth	25.65%	-20.32%	10.12%	25.23%	68.92%	-30.57%
Hist. Cash Flow Growth (3-5 yrs)	-8.86%	-16.19%	8.55%	-18.32%	5.41%	-26.35%
Current Ratio	2.75	1.85	1.20	2.02	1.54	2.53
Debt/Capital	10.76%	43.64%	42.91%	60.04%	25.18%	43.09%
Net Margin	-0.82%	-19.76%	11.79%	-20.02%	-19.50%	-47.50%
Return on Equity	4.29%	-7.51%	17.21%	-16.80%	-3.85%	-6.26%
Sales/Assets	0.45	0.40	0.54	0.41	0.54	0.12
Proj. Sales Growth (F1/F0)	-12.61%	-0.90%	4.15%	-0.90%	-16.77%	4.96%
Momentum Score	F	-	-	C	F	F
Daily Price Chg	5.23%	5.25%	1.40%	10.73%	6.57%	8.11%
1 Week Price Chg	-3.98%	-7.63%	-2.60%	-16.87%	-6.48%	-10.59%
4 Week Price Chg	-3.80%	-20.14%	1.96%	-26.54%	-18.16%	-19.00%
12 Week Price Chg	11.81%	-11.01%	6.04%	12.94%	-1.75%	7.22%
52 Week Price Chg	-23.25%	-41.56%	16.68%	-29.28%	-33.78%	-41.11%
20 Day Average Volume	2,569,322	274,034	1,966,046	7,790,037	3,488,559	15,758,066
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.62%	0.00%	-1.71%
(F1) EPS Est 4 week change	-12.32%	0.00%	0.00%	0.25%	-1.60%	-0.51%
(F1) EPS Est 12 week change	-50.42%	-5.89%	-0.08%	-10.02%	-12.55%	-2.23%
(Q1) EPS Est Mthly Chg	-7.55%	-0.41%	0.00%	1.77%	-2.64%	2.47%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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