

Helmerich & Payne (HP)

\$19.42 (As of 08/11/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/13/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Helmerich & Payne is engaged in the contract drilling of oil and gas wells in the U.S. & internationally. Its technologically-advanced FlexRigs are much in demand and it has already upgraded most of its drilling feet with the latest technology. Helmerich & Payne's decision to cut the quarterly dividend, along with a substantially reduced capex for FY 2020, should help the firm to survive the unprecedented energy market turmoil. The contract driller's low debt levels, both on an absolute and relative basis, are also a positive in this difficult operating environment. However, management sees no material improvement in rig activity during the remainder of the calendar year. The company's international segment is struggling as well, with lower revenue activity seen in Argentina. Hence, the stock warrants a cautious stance.

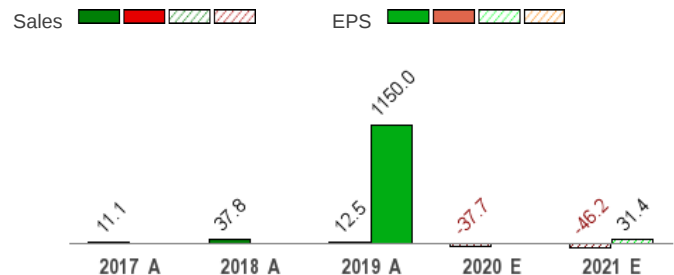
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.45 - \$12.40
20 Day Average Volume (sh)	1,949,305
Market Cap	\$2.1 B
YTD Price Change	-57.3%
Beta	2.04
Dividend / Div Yld	\$1.00 / 14.6%
Industry	Oil and Gas - Drilling
Zacks Industry Rank	Bottom 23% (196 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	49.3%
Last Sales Surprise	4.6%
EPS F1 Est- 4 week change	23.3%
Expected Report Date	11/12/2020
Earnings ESP	0.0%
P/E TTM	114.2
P/E F1	NA
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	213 E	226 E	243 E	272 E	938 E
2020	615 A	634 A	317 A	213 E	1,744 E
2019	741 A	721 A	688 A	649 A	2,798 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.73 E	-\$0.69 E	-\$0.63 E	-\$0.56 E	-\$2.71 E
2020	\$0.13 A	-\$0.01 A	-\$0.34 A	-\$0.80 E	-\$3.95 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 08/11/2020. The reports text is as of 08/12/2020.

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 divides its operations into three business segments: North America Solutions, International Solutions and Offshore Gulf of Mexico.

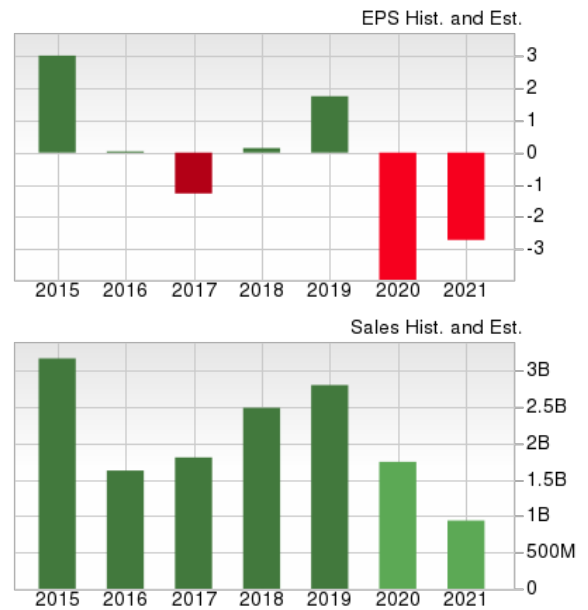
North America Solutions: As of Sep 30, 2019, the company's U.S. land drilling business consisted of 299 rigs available for work (194 under contract). Helmerich & Payne conducts its domestic land drilling primarily in Oklahoma, California, Texas, Wyoming, Colorado, Louisiana, Mississippi, Pennsylvania, 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.

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

Offshore Gulf of Mexico: 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 Solutions: 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.

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.
- ▲ Helmerich & Payne boasts of a strong balance sheet, carrying around \$480 million in net long-term debt against \$426.2 million in cash. In fact, the company's debt-to-capitalization stands at just 12% compared with many of its peers that are hugely burdened with debts, accounting for around 50% of their total capital structure. With \$750 million available under the revolving credit facility and a lack of significant near-term maturities, Helmerich & Payne should sail through the difficult operating environment.
- ▲ Investors have welcomed Helmerich & Payne's decision to cut the quarterly dividend, along with a substantially reduced capital program for FY 2020. They see these steps as part of a comprehensive effort by the company to spend within cash flow and manage the balance sheet.

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:

- ▼ The historic oil market crash and the coronavirus-induced demand destruction for the fuel has led to massive capital expenditure curtailments by the upstream players, which has created an extremely challenging operating environment for drillers like Helmerich & Payne. In fact, the CEO of the firm has already warned that there is unlikely to be any material improvement in rig activity during the remainder of the calendar year.
- ▼ In particular, the North American land drilling market, which makes up the major portion of Helmerich & Payne's earnings and cash flows, have been crushed by the unprecedented crisis. As a proof of the weakness, operating revenues of \$254.4 million in the most recent quarter were down 57.7% year over year as revenue days fell 59.2% to 8,101. Moreover, rig utilization dropped to 32% from the prior-year's 62%.
- ▼ Helmerich & Payne forecasts International Solutions operating gross margins to be between break even and a loss of \$2 million for the current quarter. While Middle East work should remain steady, the segment results will be adversely impacted by lower revenue activity in Argentina.

Helmerich & Payne expects continued reduction in activity levels in the upcoming quarter, which can impact its overall results.

Last Earnings Report

Helmerich & Payne's Q3 Loss Narrower Than Expected

Helmerich & Payne reported fiscal third-quarter 2020 adjusted loss of 34 cents per share, narrower than the Zacks Consensus Estimate of 67 cents. The outperformance reflects better than expected results from the key North America Solutions segment as lower costs helped prop up average rig margins.

However, the bottom line loss compared unfavorably with the year-ago adjusted earnings of 40 cents due to steep decline in activity.

Operating revenues of \$317.4 million topped the Zacks Consensus Estimate of \$304 million but decreased 53.9% from the year-ago level.

Segmental Performance

North America Solutions: During the quarter, operating revenues of \$254.4 million were down 57.7% year over year as revenue days fell 59.2% to 8,101. Moreover, rig utilization dropped to 32% from the prior-year's 62%.

However, the average rig margin per day improved 13.1% from the prior-year quarter to \$12,563 as daily rig revenue edged up, while rig expense ticked down. The segment's operating loss came in at \$25.2 million, significantly narrower than the year-earlier loss of \$147 million. Apart from margin gains, results were helped by the adverse impact of asset impairment charges in the fiscal third quarter of 2019.

Offshore Gulf of Mexico: Revenues of \$37.5 million were essentially flat from the year-ago quarter. While revenue days declined 16.7% to 455 and rig utilization fell to 63% from the prior-year's 75%, average rig revenue per day was up 25.3% year over year.

Meanwhile, higher average rig expenses per day and restructuring charges resulted in the segment's operating profit to fall 40.7% from the prior-period to \$3 million.

International Solutions: The segment operations generated revenues of \$22.5 million, down from \$46.3 million in the prior-year quarter on lower revenue days and average rig revenue per day. Rig utilization decreased to 34% (from 51% a year ago).

The average rig margin per day was negative at \$1.9 million, compared to a profit of \$8 million in the year-ago quarter. Consequently, the segment's bottom line came in at a loss of \$9.5 million, widening from the year-ago loss of \$5 million.

Capital Expenditure & Balance Sheet

In the reported quarter, Helmerich & Payne spent \$26.6 million on capital programs. As of Jun 30, 2020, the company had \$426.2 million in cash and cash equivalents while long-term debt was \$480.3 million (debt-to-capitalization of 12.4%).

Guidance

This Tulsa, OK-based company anticipates operating gross margins in the North America Solutions segment to be between \$38 and \$48 million inclusive of approximately \$12 million of contract early termination compensation in the fiscal fourth quarter. The company sees around 58-63 contracted rigs by Sep 30, 2020.

Coming to the Offshore Gulf of Mexico segment, Helmerich & Payne envisions operating gross margins within \$5-7 million for the fiscal fourth quarter and operating income of \$2 million.

Additionally, International Solutions operating gross margins are forecast to be between break even and a loss of \$2 million for the current quarter.

For the current fiscal year, Helmerich & Payne estimates capital outlay within \$150-\$165 million.

In addition to the cost containment initiatives announced previously, the oil and gas contract driller expects to lower its cost structure by a further \$25 million annually. This brings the total yearly savings to more than \$75 million

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	4.55%
EPS Surprise	49.25%
Quarterly EPS	-0.34
Annual EPS (TTM)	0.17

Valuation

Helmerich & Payne shares are down 57.2% in the year-to-date period and 52.1% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 56.6% and 34.2% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 44.8% and 30.6%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 14% in the past year.

The stock is currently trading at 2X forward 12-month sales, which compares to 0.83X for the Zacks sub-industry, 0.73X for the Zacks sector and 3.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.75X and as low as 0.55X, with a 5-year median of 2.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$21 price target reflects 2.16X 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	2	0.83	0.73	3.67
	5-Year High	5.75	3.43	1.46	3.67
	5-Year Low	0.55	0.37	0.59	2.53
	5-Year Median	2.69	1.9	0.99	3.05
EV/EBITDA TTM	Current	4.94	10.53	4.73	12.66
	5-Year High	170.9	15.3	10.47	12.84
	5-Year Low	NA	4	3.04	8.24
	5-Year Median	8.69	9.12	6.49	10.9
P/B TTM	Current	0.61	0.25	0.93	4.68
	5-Year High	1.98	0.89	1.54	4.68
	5-Year Low	0.35	0.11	0.52	2.83
	5-Year Median	1.37	0.61	1.31	3.74

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (196 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
KONINKLIJKE VPK (VOPKY)	Outperform	3
Independence Contract Drilling, Inc. (ICD)	Neutral	3
Key Energy Services, Inc. (KEGX)	Neutral	3
Nabors Industries Ltd. (NBR)	Neutral	3
Noble Corporation (NE)	Neutral	4
Precision Drilling Corporation (PDS)	Neutral	3
PattersonUTI Energy, Inc. (PTEN)	Neutral	3
Transocean Ltd. (RIG)	Neutral	3

Industry Comparison Industry: Oil And Gas - Drilling				Industry Peers		
	HP	X Industry	S&P 500	NBR	PTEN	RIG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	B	A
Market Cap	2.09 B	138.91 M	23.61 B	451.32 M	839.58 M	1.43 B
# of Analysts	4	1	14	4	7	4
Dividend Yield	14.62%	0.00%	1.69%	0.00%	1.79%	0.00%
Value Score	B	-	-	A	A	B
Cash/Price	0.25	1.14	0.07	1.14	0.32	1.41
EV/EBITDA	3.85	2.79	13.32	6.19	2.79	15.80
PEG Ratio	NA	NA	2.95	NA	NA	NA
Price/Book (P/B)	0.61	0.16	3.22	0.26	0.38	0.13
Price/Cash Flow (P/CF)	2.80	1.06	12.79	0.81	1.06	9.20
P/E (F1)	NA	9.34	22.02	NA	NA	NA
Price/Sales (P/S)	0.94	0.19	2.57	0.17	0.47	0.44
Earnings Yield	-20.34%	-42.57%	4.29%	-167.82%	-48.44%	-37.77%
Debt/Equity	0.14	0.58	0.77	2.17	0.44	0.77
Cash Flow (\$/share)	6.94	0.38	6.94	66.31	4.23	0.25
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	-3.35%	-23.30%	10.41%	NA	NA	NA
Proj. EPS Growth (F1/F0)	-325.57%	-38.78%	-6.51%	14.39%	-119.19%	39.66%
Curr. Cash Flow Growth	25.65%	-21.95%	5.22%	-4.60%	-21.95%	-72.37%
Hist. Cash Flow Growth (3-5 yrs)	-8.86%	-14.88%	8.55%	-20.25%	-2.53%	-44.46%
Current Ratio	4.09	1.90	1.34	2.20	1.90	2.07
Debt/Capital	12.39%	36.88%	44.59%	68.49%	30.77%	43.56%
Net Margin	-17.81%	-53.13%	10.13%	-33.84%	-52.19%	-54.06%
Return on Equity	0.61%	-13.37%	14.59%	-21.14%	-12.67%	-5.92%
Sales/Assets	0.41	0.23	0.51	0.41	0.43	0.14
Proj. Sales Growth (F1/F0)	-37.67%	-0.52%	-1.45%	-29.54%	-55.88%	-0.70%
Momentum Score	B	-	-	D	D	A
Daily Price Chg	0.00%	0.00%	-0.17%	-0.68%	1.82%	-2.10%
1 Week Price Chg	3.42%	0.86%	2.30%	21.53%	6.32%	9.80%
4 Week Price Chg	2.43%	0.32%	6.41%	84.76%	26.91%	20.10%
12 Week Price Chg	3.02%	3.80%	15.42%	171.00%	25.14%	65.25%
52 Week Price Chg	-52.04%	-52.04%	2.88%	-46.71%	-50.06%	-45.81%
20 Day Average Volume	1,949,305	237,568	2,007,486	809,274	5,541,381	18,119,244
(F1) EPS Est 1 week change	11.39%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	23.25%	0.00%	1.84%	-0.13%	-0.20%	13.79%
(F1) EPS Est 12 week change	16.19%	1.43%	2.40%	3.53%	1.43%	13.88%
(Q1) EPS Est Mthly Chg	-4.49%	1.53%	0.72%	2.45%	4.72%	18.12%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Growth Score	B
Momentum Score	B
VGM Score	A

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. 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. ZIR 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. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR 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. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.