

Helmerich & Payne (HP)

\$18.68 (As of 07/10/20)

Price Target (6-12 Months): **\$20.00**

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:B

Value: A

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. Investors have welcomed Helmerich & Payne's decision to cut the quarterly dividend, along with a substantially reduced capex for FY 2020. The contract driller's low debt levels, both on an absolute and relative basis, is also a positive in this difficult operating environment. However, management predicts continued decline in rig activity fiscal third quarter of 2020. In an attempt to curb cost, Helmerich & Payne has tightened its capital spending, which in turn will lower the number wells drilled in 2020 by roughly 14%. Hence, the stock warrants a cautious stance.

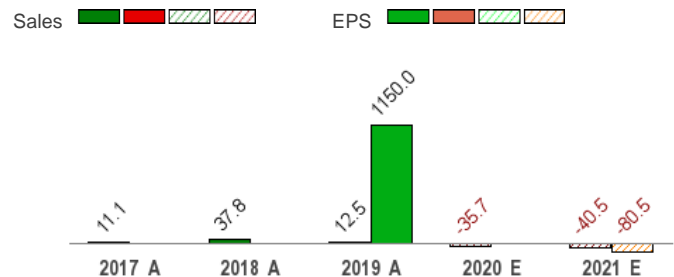
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.48 - \$12.40
20 Day Average Volume (sh)	2,037,425
Market Cap	\$2.0 B
YTD Price Change	-58.9%
Beta	2.10
Dividend / Div Yld	\$1.00 / 15.2%
Industry	Oil and Gas - Drilling
Zacks Industry Rank	Bottom 19% (205 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-114.3%
Last Sales Surprise	6.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/28/2020
Earnings ESP	16.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	227 E	230 E	267 E	298 E	1,071 E
2020	615 A	634 A	306 E	247 E	1,799 E
2019	741 A	721 A	688 A	649 A	2,798 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.76 E	-\$0.73 E	-\$0.66 E	-\$0.62 E	-\$2.78 E
2020	\$0.13 A	-\$0.01 A	-\$0.66 E	-\$0.76 E	-\$1.54 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.

P/E TTM	20.5
P/E F1	NA
PEG F1	NA
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/10/2020. The reports text is as of 07/13/2020.

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.

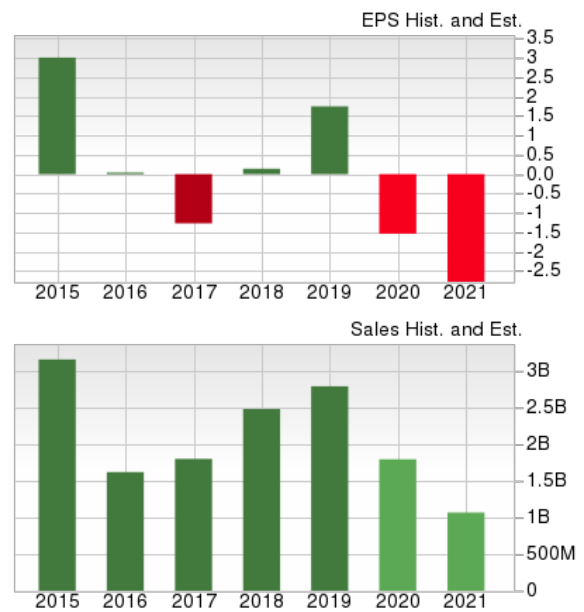
U.S. Land Drilling: As of Sep 30, 2019, the company's U.S. land drilling business consisted of 299 rigs available for work (194 under contract). Helmerich & Payne conducts its domestic land drilling primarily in Oklahoma, California, Texas, Wyoming, Colorado, Louisiana, Mississippi, Pennsylvania, Ohio, 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.
- ▲ Helmerich & Payne boasts of a strong balance sheet, carrying \$479.8 million in long-term debt against \$336.1 million in cash. In fact, the company's long-term debt-to-capitalization stands at just 12.2% 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 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 continued declines in rig activity in the fiscal third quarter of 2020. Moreover, Additionally, international land operating gross margins are forecast to be in a negative \$4-\$6 million range for the current quarter.
- ▼ 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 continued reduction in activity levels in the upcoming quarter, which can impact its overall results.

Last Earnings Report

Helmerich & Payne Reports Q2 Loss

Helmerich & Payne posted adjusted quarterly loss of a cent per share. The Zacks Consensus Estimate was of earnings of 7 cents per share. Moreover, the bottom line came against the year-ago earnings of 66 cents. This underperformance can be attributed to weakness in the U.S. Land segment.

However, operating revenues of \$633.64 million topped the Zacks Consensus Estimate of \$593 million owing to strong contributions from International Land and H&P Technologies segments. However, the top line decreased 12.1% from the year-ago level of \$721 million.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	6.77%
EPS Surprise	-114.29%
Quarterly EPS	-0.01
Annual EPS (TTM)	0.91

Segmental Performance

U.S. Land: During the quarter, operating revenues of \$530.7 million were down 14.05% year over year as revenue days fell 18.8% to 17,273.

Rig utilization dropped 63% from the prior-year's 67%. The segment's operating loss came in at \$309.1 million against the year-earlier profit of \$102 million. Moreover, the average rig margin per day dipped 4.7% from the prior-year quarter to \$10,759. However, rig revenue per day improved in the quarter under review.

Offshore: Revenues of \$33 million were marginally down from the year-ago quarter's \$34.6 million as revenue days declined 15.4% to 457. Rig utilization plummeted 63% from the prior-year's 75%. Moreover, higher average rig expenses per day and increased direct operating expenses resulted in the segment's operating loss of \$3.3 million against a profit of \$4.5 million in the prior-year quarter.

Although daily average rig revenues surged 34.2% from the year-ago figure, rig expense per day climbed 85%. Moreover, the segment recorded a negative average rig margin per day in the quarter under review.

International Land: Operations generated revenues of \$51.3 million, up from \$50.8 million in the prior-year quarter on improved average rig revenue per day.

While rig utilization decreased to 53%, average rig revenue increased from the year-ago quarter to \$31,706. The average rig margin per day decreased 9.08% from the year-ago quarter to \$10,784. The segment's bottom line induced an operating loss of \$152.5 million versus a profit of \$7.9 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.

During the reported quarter, the segment recognized revenues worth \$17.7 million, up 20.2% from the year-ago figure. However, the company's increasing asset impairment charge and depreciation, led to the segment's wider operating loss of \$33.6 million from the year-ago loss of \$3.8 million.

Capital Expenditure & Balance Sheet

In the reported quarter, Helmerich & Payne spent \$48.3 million on capital programs. As of Mar 31, 2020, the company had \$336.08 million in cash and cash equivalents while long-term debt was \$479.3 million (debt-to-capitalization of 12.2%).

Guidance

This Tulsa, OK-based company anticipates operating gross margins in the U.S. land segment to be between \$90 and \$105 million inclusive of approximately \$45 million of contract early termination compensation in the fiscal third quarter.

Coming to the offshore segment, Helmerich & Payne envisions operating gross margins within \$4-6 million for the fiscal third quarter and operating income of \$2 million.

Additionally, international land operating gross margins are forecast to be in a negative \$4-\$6 million range for the current quarter.

Revenues from HP Technologies are predicted in the \$4-\$7 million range.

For the current fiscal year, Helmerich & Payne estimates capital outlay within \$185-\$205 million. 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.

Valuation

Helmerich & Payne shares are down 54% in the year-to-date period and 57.2% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 61.9% and 34.7% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 63.1% and 37.4%, respectively.

The S&P 500 index is down 3.1% in the year-to-date period and up 7% in the past year.

The stock is currently trading at 1.63X forward 12-month sales, which compares to 0.59X for the Zacks sub-industry, 0.72X for the Zacks sector and 3.55X 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 \$20 price target reflects 1.75X 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	1.63	0.59	0.72	3.55
	5-Year High	5.75	3.24	1.46	3.55
	5-Year Low	0.55	0.36	0.59	2.53
	5-Year Median	2.69	1.88	0.99	3.02
EV/EBITDA TTM	Current	3.96	9.53	3.93	11.84
	5-Year High	170.87	14.84	10.45	12.86
	5-Year Low	NA	4.05	3.03	8.25
	5-Year Median	8.68	9.15	6.5	10.86
P/B TTM	Current	0.58	0.18	0.87	4.37
	5-Year High	1.98	0.89	1.54	4.56
	5-Year Low	0.35	0.11	0.52	2.83
	5-Year Median	1.37	0.62	1.31	3.7

As of 07/10/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Diamond Offshore Drilling, Inc. (DO)	Neutral	4
Key Energy Services, Inc. (KEGX)	Neutral	3
Nabors Industries Ltd. (NBR)	Neutral	4
Noble Corporation (NE)	Neutral	3
Precision Drilling Corporation (PDS)	Neutral	3
PattersonUTI Energy, Inc. (PTEN)	Neutral	3
Transocean Ltd. (RIG)	Neutral	3
KONINKLIJKE VPK (VOPKY)	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	-	-	4	3	3
VGM Score	B	-	-	A	A	F
Market Cap	2.01 B	167.34 M	21.61 B	218.02 M	632.25 M	1.16 B
# of Analysts	4	3	14	7	7	4
Dividend Yield	15.20%	0.00%	1.92%	0.00%	2.36%	0.00%
Value Score	A	-	-	C	A	F
Cash/Price	0.19	0.88	0.07	1.94	0.24	1.78
EV/EBITDA	3.91	2.69	12.75	5.97	2.59	15.31
PEG Ratio	NA	NA	2.87	NA	NA	NA
Price/Book (P/B)	0.58	0.10	3.01	0.13	0.27	0.10
Price/Cash Flow (P/CF)	2.69	0.80	11.53	0.45	0.80	7.42
P/E (F1)	NA	16.24	21.07	NA	NA	NA
Price/Sales (P/S)	0.78	0.15	2.23	0.07	0.29	0.37
Earnings Yield	-8.24%	-62.30%	4.48%	-301.61%	-63.72%	-54.26%
Debt/Equity	0.14	0.60	0.76	2.06	0.42	0.75
Cash Flow (\$/share)	6.94	0.38	6.94	66.31	4.23	0.25
Growth Score	C	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	-7.65%	-25.45%	10.90%	NA	NA	NA
Proj. EPS Growth (F1/F0)	-187.86%	-24.03%	-9.99%	14.61%	-117.75%	30.00%
Curr. Cash Flow Growth	25.65%	-21.95%	5.51%	-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	2.97	1.62	1.30	2.17	1.65	2.06
Debt/Capital	12.18%	37.65%	44.46%	67.37%	29.43%	42.77%
Net Margin	-19.47%	-35.31%	10.62%	-33.01%	-37.60%	-47.72%
Return on Equity	2.64%	-9.70%	15.75%	-20.73%	-9.11%	-7.44%
Sales/Assets	0.45	0.39	0.55	0.42	0.49	0.13
Proj. Sales Growth (F1/F0)	-35.71%	-1.98%	-2.52%	-27.52%	-57.25%	-1.66%
Momentum Score	F	-	-	A	A	F
Daily Price Chg	6.99%	0.68%	1.51%	-5.80%	2.11%	-1.05%
1 Week Price Chg	-0.91%	0.00%	3.66%	2.46%	-5.88%	3.37%
4 Week Price Chg	-10.28%	-7.30%	1.85%	-32.68%	-18.51%	-6.93%
12 Week Price Chg	16.24%	39.36%	12.57%	86.80%	84.24%	64.91%
52 Week Price Chg	-63.92%	-70.35%	-7.10%	-77.54%	-70.67%	-70.02%
20 Day Average Volume	2,037,425	281,335	2,339,510	815,097	7,129,923	24,295,442
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.50%	-1.25%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	3.78%	1.44%	-1.25%
(F1) EPS Est 12 week change	-198.54%	-19.43%	-7.77%	-19.43%	1.52%	-14.91%
(Q1) EPS Est Mthly Chg	0.65%	0.00%	0.00%	-2.16%	2.03%	0.00%

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	A
Growth Score	C
Momentum Score	F
VGM Score	B

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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