Jan 21, 2020

Helmerich & Payne (HP)

$45.13 (As of 01/20/20)

Price Target (6-12 Months): **$48.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/11/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: A | Momentum: F	

Summary

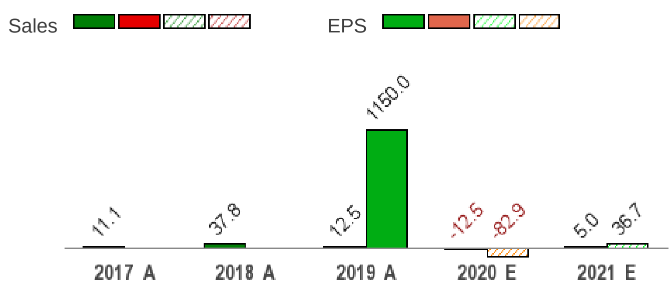
Helmerich & Payne's technologically-advanced FlexRigs are much in demand and it has already upgraded most of its drilling feet with the latest technology. The debt levels of Helmerich are not only low on an absolute basis but also on a relative basis. The company's leverage stands at less than 11% compared with many of its peers that are hugely burdened with debts, accounting for around 50% of their total capital structure. However, with the U.S. drilling operations expected to remain weak, pressure pumping activities are likely to remain soft. The fracking giant has forecasted weaker hydraulic fracturing activity in the coming period amid tight capex of the energy explorers. Amid the slowdown of activities in the United States, the firm is expected to run fewer rigs, which will result in lost revenues and rig stacking costs.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$64.80 - $35.75**
20 Day Average Volume (sh)	**1,374,813**
Market Cap	**$4.9 B**
YTD Price Change	**-0.7%**
Beta	**1.68**
Dividend / Div Yld	**$2.84 / 6.3%**
Industry	**Oil and Gas - Drilling**
Zacks Industry Rank	**Top 45% (114 out of 254)**
Last EPS Surprise	**62.5%**
Last Sales Surprise	**-0.6%**
EPS F1 Est- 4 week change	**-19.8%**
Expected Report Date	**02/04/2020**
Earnings ESP	**-8.8%**
P/E TTM	**25.5**
P/E F1	**150.4**
PEG F1	**6.9**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2021	590 E	590 E	608 E	616 E	2,569 E
2020	603 E	598 E	610 E	620 E	2,447 E
2019	741 A	721 A	688 A	649 A	2,798 A

EPS Estimates

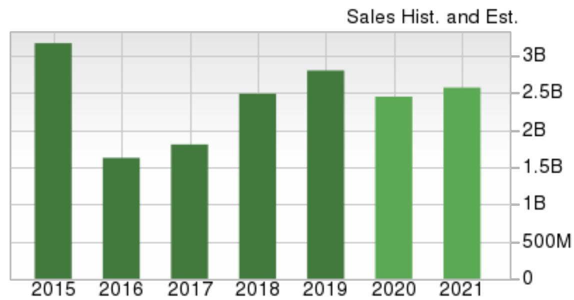
	Q1	Q2	Q3	Q4	Annual*
2021	$0.13 E	$0.12 E	$0.19 E	$0.25 E	$0.41 E
2020	$0.07 E	$0.07 E	$0.10 E	$0.12 E	$0.30 E
2019	$0.32 A	$0.66 A	$0.40 A	$0.39 A	$1.75 A

*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 01/20/2020. The reports text is as of 01/21/2020.

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

- 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 10.6% 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.

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.

Helmerich & Payne expects reduced U.S. Land activities in the upcoming quarter, which can impact its overall results.

- Bringing in more bad news for investors, Helmerich & Payne management predicts revenue days in the Offshore segment to have dropped by 15% sequentially in the fiscal first quarter of 2020. Moreover, international land segment revenue days will likely witness a slight decrease sequentially.

- 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. The company expects activity in the U.S. Land segment is likely to have decreased 5.5-6.5% sequentially during first-quarter fiscal 2020. While average rig revenue per day is likely to be in the band of $24,750-$25,250, daily average rig cost is expected within $14,350-$14,850.

Last Earnings Report

Helmerich & Payne's Fiscal Q4 Earnings Beat, Improves Y/Y

Quarter Ending	09/2019
Report Date	Nov 14, 2019
Sales Surprise	-0.61%
EPS Surprise	62.50%
Quarterly EPS	0.39
Annual EPS (TTM)	1.77

Helmerich & Payne's fourth-quarter fiscal 2019 results delivered a comprehensive earnings beat on the back of improved contribution from the H&P Technologies business, which benefited from a change in contingent liability accounting.

The company posted adjusted quarterly earnings of 39 cents a share, surpassing the Zacks Consensus Estimate of 24. The bottom line also improved from the year-ago figure of 19 cents.

However, operating revenues of $649.05 million lagged the Zacks Consensus Estimate of $661 million and also decreased 6.8% from the year-ago level of $696.83 million. This underperformance can be attributed to weak contributions from the U.S. Land and International land segments.

Segmental Performance

U.S. Land: During the quarter, operating revenues totaled $545 million, down 6.8% year over year as average rig expense per day rose 9.7% to $15,440.

The average rig margin per day dipped 2.2% from the prior-year quarter to $10,038. Moreover, revenue days dropped in the quarter under review. However, rig utilization soared 68% compared with the year-ago level of 65%. The segment's operating profit came in at $59.2 million compared with the year-ago profit of $63 million.

Offshore: Revenues came in at $38.4 million, almost unchanged from the year-ago quarter. While rig utilization and revenue days were in line with the year-ago level, higher average rig expenses per day and increased direct operating expenses diminished the segment's operating profits.

Although daily average rig revenues increased 18.25% from the year-ago figure, rig expense per day surged 42.6%. However, the average rig margin per day plunged 34.8% year over year to $7,460, missing the Zacks Consensus Estimate of $12,500. In addition, segmental profits declined to $2.8 million from $7.7 million in the prior-year quarter.

International Land: Operations generated revenues of $48.3 million, down from $59.3 million in the prior-year quarter on lower average rig revenue per day.

While rig utilization increased to 56%, average rig revenue and rig margin per day decreased 8.7% and 36.7% from the year-ago quarter to $28,199 and $5,477, respectively. Selling, general and administrative charges of 1,399 million weighed on the segment's bottom line as well, inducing an operating loss of $4.2 million, narrower than the $7.6 million loss in the year-ago period.

H&P Technologies: In late last November, Helmerich & Payne had announced the creation of its new segment 'H&P Technologies' to reflect the addition of the recently-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 strong demand during the quarter, the segment recognized revenues of $13.8 million, up 26.8% from the year-ago figure. However, higher revenues were partly offset by increasing selling, general and administrative charges and depreciation. But overall, the segment generated operating profit of $623 million against the year-ago loss of $14 million.

Capital Expenditure & Balance Sheet

In the reported quarter, Helmerich & Payne spent $54.8 million on capital programs. As of Sep 30, 2019, the company had $347.9 million in cash and cash equivalents while long-term debt was $479.3 million (debt-to-capitalization ratio of 10.6%).

Guidance

This Tulsa, OK-based company expects activity in the U.S. land segment to decrease 5.5-6.5% sequentially during first-quarter fiscal 2020. While average rig revenue per day is likely to be in the band of $24,750-$25,250, daily average rig cost is expected within $14,350-$14,850.

Coming to the offshore segment, Helmerich & Payne projects average rig margin per day within $12,000-$13,000 in the fiscal first quarter and revenue days to fall 15% sequentially.

Moreover, international land segment revenue days will likely witness a slight decrease sequentially. Average rig margin per day is anticipated within $3,00-$4,000.

Revenues from HP Technologies are predicted in the $15-$18 million range.

For fiscal 2020, Helmerich & Payne estimates capital outlay within $275-$300 million.

Valuation

Helmerich & Payne shares are down 8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 20.7% and 1.3%, respectively.

The S&P 500 index is up 28.3% in the past year.

The stock is currently trading at 1.97X forward 12-month sales, which compares to 1.01X for the Zacks sub-industry, 0.89X for the Zacks sector and 3.57X 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 $48 price target reflects 2.09X 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	1.97	1.01	0.89	3.57
	5-Year High	5.75	2.48	1.44	3.57
	5-Year Low	1.48	0.79	0.67	2.54
	5-Year Median	2.8	1.48	0.99	3
EV/EBITDA TTM	Current	6.11	8.56	5.03	12.38
	5-Year High	169.61	13.01	10.19	12.86
	5-Year Low	NA	4.07	4.56	8.48
	5-Year Median	8.69	8.13	6.5	10.67
P/B TTM	Current	1.22	0.44	1.22	4.55
	5-Year High	1.98	0.91	1.59	4.55
	5-Year Low	0.96	0.32	1.02	2.85
	5-Year Median	1.44	0.58	1.31	3.61

As of 01/17/2020

Industry Analysis **Zacks Industry Rank:** Top 45% (114 out of 254)

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	C	-	-	A	A	D
Market Cap	4.89 B	383.88 M	24.65 B	1.06 B	1.94 B	3.65 B
# of Analysts	10	5	13	5	7	4
Dividend Yield	6.29%	0.00%	1.73%	1.37%	1.61%	0.00%
Value Score	D	-	-	B	A	D
Cash/Price	0.08	0.36	0.04	0.38	0.08	0.64
EV/EBITDA	9.23	4.11	14.11	6.82	3.40	-45.50
PEG Ratio	6.82	9.36	2.08	NA	NA	NA
Price/Book (P/B)	1.23	0.35	3.39	0.45	0.66	0.31
Price/Cash Flow (P/CF)	6.51	3.43	13.81	2.06	2.05	6.49
P/E (F1)	149.43	18.13	19.19	NA	NA	NA
Price/Sales (P/S)	1.75	0.45	2.69	0.34	0.70	1.20
Earnings Yield	0.66%	-14.27%	5.21%	-30.24%	-14.27%	-14.07%
Debt/Equity	0.12	0.76	0.72	1.50	0.34	0.76
Cash Flow ($/share)	6.94	0.62	6.94	1.41	4.85	0.92
Growth Score	A	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	-27.87%	-34.19%	10.56%	NA	NA	-50.60%
Proj. EPS Growth (F1/F0)	-82.91%	14.24%	7.57%	39.50%	-43.02%	34.07%
Curr. Cash Flow Growth	25.65%	-20.32%	14.73%	25.23%	68.92%	-30.57%
Hist. Cash Flow Growth (3-5 yrs)	-8.86%	-16.19%	9.00%	-18.32%	5.41%	-26.35%
Current Ratio	2.72	1.85	1.24	2.02	1.54	2.53
Debt/Capital	10.67%	43.64%	42.99%	60.04%	25.18%	43.09%
Net Margin	-1.20%	-19.76%	11.14%	-20.02%	-19.50%	-47.50%
Return on Equity	4.68%	-7.51%	17.16%	-16.80%	-3.85%	-6.26%
Sales/Assets	0.47	0.40	0.55	0.41	0.54	0.12
Proj. Sales Growth (F1/F0)	-12.54%	-0.73%	4.16%	-0.73%	-15.97%	4.96%
Momentum Score	F	-	-	F	F	A
Daily Price Chg	-0.27%	-1.85%	0.27%	-1.69%	-0.90%	-2.93%
1 Week Price Chg	1.46%	-5.89%	0.39%	-3.19%	-4.64%	-11.51%
4 Week Price Chg	4.01%	-2.14%	2.95%	-5.83%	-1.00%	-2.29%
12 Week Price Chg	14.75%	13.30%	7.76%	70.18%	16.24%	29.22%
52 Week Price Chg	-15.77%	-30.50%	22.29%	1.04%	-20.46%	-30.50%
20 Day Average Volume	1,374,813	264,631	1,536,375	7,717,893	2,718,596	14,007,709
(F1) EPS Est 1 week change	-8.84%	0.00%	0.00%	-0.89%	-1.30%	0.51%
(F1) EPS Est 4 week change	-19.84%	0.00%	0.00%	-3.92%	-8.55%	1.35%
(F1) EPS Est 12 week change	-56.44%	-16.75%	-0.40%	-21.46%	-12.70%	8.83%
(Q1) EPS Est Mthly Chg	-25.76%	-0.83%	0.00%	-6.99%	-6.10%	1.25%

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	D
Growth Score	A
Momentum Score	F
VGM Score	C

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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