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Apr 24, 2020

Helmerich & Payne (HP)

$19.34 (As of 04/23/20)

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

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: B | Growth: C | Momentum: F	

Summary

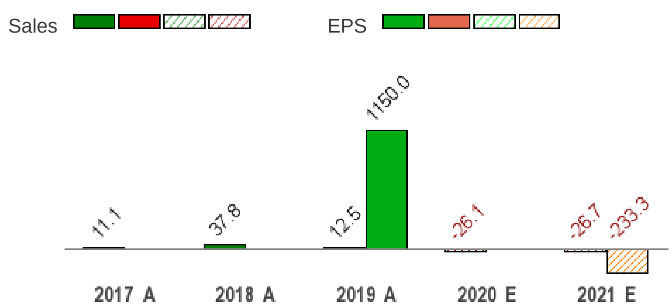
Helmerich & Payne is engaged in the contract drilling of oil and gas wells in the U.S. & internationally. It's technologically-advanced FlexRigs are much in demand and it has already upgraded most of its drilling feet with the latest technology. Investors have welcomed Helmerich & Payne's decision to cut the quarterly dividend, along with a substantially reduced capital program for FY 2020. The contract driller's low debt debt levels, both on an absolute and relative basis, is also a positive. 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	**$64.10 - $12.40**
20 Day Average Volume (sh)	**2,771,090**
Market Cap	**$2.1 B**
YTD Price Change	**-57.4%**
Beta	**2.08**
Dividend / Div Yld	**$2.84 / 14.7%**
Industry	**Oil and Gas - Drilling**
Zacks Industry Rank	**Top 16% (41 out of 253)**
Last EPS Surprise	**85.7%**
Last Sales Surprise	**1.9%**
EPS F1 Est- 4 week change	**-625.5%**
Expected Report Date	**04/30/2020**
Earnings ESP	**-5.7%**
P/E TTM	**12.2**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	414 E	418 E	446 E	462 E	1,516 E
2020	615 A	593 E	470 E	395 E	2,068 E
2019	741 A	721 A	688 A	649 A	2,798 A

EPS Estimates

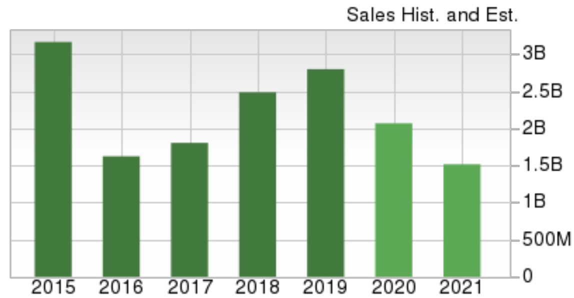
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.52 E	-$0.55 E	-$0.48 E	-$0.44 E	-$2.00 E
2020	$0.13 A	$0.07 E	-$0.29 E	-$0.49 E	-$0.60 E
2019	$0.32 A	$0.66 A	$0.40 A	$0.39 A	$1.75 A

*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 04/23/2020. The reports text is as of 04/24/2020.

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 10.8% compared with many of its peers that are hugely burdened with debts, accounting for around 50% of their total capital structure.
- 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.

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 revenue days in the Offshore segment 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 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.

Last Earnings Report

Helmerich & Payne Q1 Earnings & Revenues Surpass Estimates

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

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.

Recent News

Helmerich & Payne Cuts FY 2020 Capital Program, Dividend

On **Mar 31**, Helmerich & Payne announced a cut in its dividend payment to shareholders The future payout to investors has been slashed by 65%, to 25 cents a share. However, the company will still pay its 71 cents dividend on June 1. Helmerich & Payne further announced that it set its FY 2020 capital budget in the $210-$230 million range, around 23% lower than the prior guidance of $275-$300 million. Earlier, the contract driller withdrew its fiscal second quarter guidance.

Valuation

Helmerich & Payne shares are down 57.4% in the year-to-date period and 68.5% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 77% and 42.3% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 83.4% and 47.5%, respectively.

The S&P 500 index is down 13.1% in the year-to-date period and 4.9% in the past year.

The stock is currently trading at 1.2X forward 12-month sales, which compares to 0.32X for the Zacks sub-industry, 0.65X for the Zacks sector and 3.14X 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 2.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $21 price target reflects 1.3X 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	1.2	0.32	0.65	3.14
	5-Year High	5.75	2.53	1.45	3.44
	5-Year Low	0.55	0.29	0.58	2.54
	5-Year Median	2.8	1.51	0.99	3.01
EV/EBITDA TTM	Current	2.95	7.42	3.7	10.23
	5-Year High	170.87	13.22	10.38	12.87
	5-Year Low	NA	4.02	3.05	8.28
	5-Year Median	8.68	8.31	6.51	10.78
P/B TTM	Current	0.53	0.11	0.71	3.71
	5-Year High	1.98	0.92	1.61	4.55
	5-Year Low	0.35	0.1	0.51	2.84
	5-Year Median	1.41	0.58	1.32	3.64

As of 04/23/2020

Industry Analysis **Zacks Industry Rank:** Top 16% (41 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Diamond Offshore Drilling, Inc. **(DO)**	Neutral	3
Key Energy Services, Inc. **(KEGX)**	Neutral	1
Nabors Industries Ltd. **(NBR)**	Neutral	3
Noble Corporation **(NE)**	Neutral	3
Precision Drilling Corporation **(PDS)**	Neutral	3
Patterson-UTI Energy, Inc. **(PTEN)**	Neutral	3
Transocean Ltd. **(RIG)**	Neutral	3
KONINKLIJKE VPK **(VOPKY)**	Neutral	3

Industry Comparison Industry: Oil And Gas - Drilling

	HP	X Industry	S&P 500	NBR	PTEN	RIG
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	A	D
Market Cap	2.11 B	97.15 M	19.03 B	97.87 M	538.57 M	612.57 M
# of Analysts	7	5	14	8	9	6
Dividend Yield	14.69%	0.00%	2.23%	0.00%	5.54%	0.00%
Value Score	B	-	-	C	A	B
Cash/Price	0.21	1.49	0.05	3.96	0.45	3.22
EV/EBITDA	4.04	3.75	11.66	5.70	2.39	13.80
PEG Ratio	NA	NA	2.20	NA	NA	NA
Price/Book (P/B)	0.53	0.06	2.56	0.04	0.20	0.05
Price/Cash Flow (P/CF)	2.79	1.01	10.31	0.18	0.68	3.95
P/E (F1)	NA	32.27	17.77	NA	NA	NA
Price/Sales (P/S)	0.79	0.14	1.97	0.03	0.24	0.20
Earnings Yield	-3.10%	-96.61%	5.48%	-711.74%	-76.12%	-96.00%
Debt/Equity	0.12	0.61	0.72	1.63	0.35	0.73
Cash Flow ($/share)	6.94	0.46	7.01	66.31	4.23	0.25
Growth Score	C	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	-17.65%	-36.68%	10.92%	NA	NA	-54.01%
Proj. EPS Growth (F1/F0)	-134.53%	-18.63%	-5.06%	-3,836.64%	-122.44%	33.79%
Curr. Cash Flow Growth	25.65%	-21.38%	5.92%	-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	2.75	1.58	1.23	1.90	1.58	2.11
Debt/Capital	10.76%	40.11%	43.90%	61.92%	25.95%	42.28%
Net Margin	-0.82%	-23.29%	11.32%	-23.02%	-37.60%	-40.64%
Return on Equity	4.29%	-8.88%	16.60%	-17.93%	-8.62%	-7.16%
Sales/Assets	0.45	0.39	0.55	0.42	0.47	0.12
Proj. Sales Growth (F1/F0)	-26.09%	-3.15%	-0.78%	-20.58%	-48.39%	0.13%
Momentum Score	F	-	-	D	D	B
Daily Price Chg	4.94%	5.09%	0.15%	13.63%	25.65%	5.25%
1 Week Price Chg	-7.51%	-9.02%	0.42%	-27.61%	-10.82%	-17.36%
4 Week Price Chg	2.06%	-0.49%	4.04%	-51.38%	13.33%	-25.37%
12 Week Price Chg	-52.33%	-65.36%	-21.19%	-89.98%	-64.06%	-78.90%
52 Week Price Chg	-68.52%	-87.24%	-15.14%	-93.71%	-80.47%	-88.80%
20 Day Average Volume	2,771,090	462,868	2,802,273	325,427	6,944,990	31,099,264
(F1) EPS Est 1 week change	0.00%	0.00%	-0.10%	-0.38%	0.00%	-3.60%
(F1) EPS Est 4 week change	-625.47%	-21.88%	-6.64%	-30.12%	-13.67%	-6.50%
(F1) EPS Est 12 week change	-267.08%	-43.03%	-11.78%	-88.07%	-57.25%	-14.87%
(Q1) EPS Est Mthly Chg	-278.62%	-15.88%	-10.38%	-18.07%	-13.70%	-2.94%

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	C
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.

Disclosures

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