

Nabors Industries Ltd. (NBR)

\$1.79 (As of 02/25/20)

Price Target (6-12 Months): **\$3.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

One of the leading drilling contractors in North America, Nabors is exposed to tepid oilfield service activities in North America with upstream energy companies choosing to remain conservative with their investment budgets. But the firm's initiatives to expand its geographic reach and diversify its operating assets beyond land rigs bode well for its Rig Technologies and Drilling Solutions segments. Nabors' JV with Saudi Aramco also brightens its prospects. However, its debt-to-capital ratio of 62% restricts its financial flexibility. Further, the company is witnessing lower margins and tough operating environment in several markets which are expected to prevail in the near-term as well. Investors also need to factor the plunge in gas-related activities. As such, Nabors warrants a cautious stance from the investors at the moment.

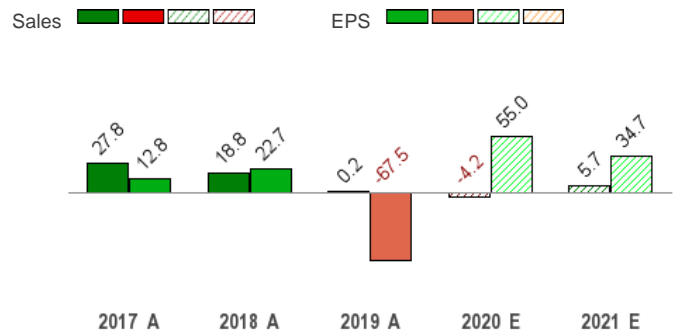
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$4.08 - \$1.50
20 Day Average Volume (sh)	6,261,759
Market Cap	\$650.5 M
YTD Price Change	-37.9%
Beta	2.94
Dividend / Div Yld	\$0.04 / 2.2%
Industry	Oil and Gas - Drilling
Zacks Industry Rank	Top 41% (104 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-3.7%
EPS F1 Est- 4 week change	-7.4%
Expected Report Date	05/05/2020
Earnings ESP	-4.7%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	726 E	738 E	751 E	752 E	3,094 E
2020	714 E	719 E	740 E	747 E	2,927 E
2019	809 A	772 A	757 A	716 A	3,054 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.17 E	-\$0.16 E	-\$0.13 E	-\$0.12 E	-\$0.62 E
2020	-\$0.25 E	-\$0.23 E	-\$0.20 E	-\$0.18 E	-\$0.95 E
2019	-\$0.36 A	-\$0.41 A	-\$0.31 A	-\$0.24 A	-\$2.11 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 02/25/2020. The reports text is as of 02/26/2020.

Overview

Incorporated in 1978, Hamilton-based Nabors Industries Ltd. is one of the largest land-drilling contractors in the world, conducting oil, gas, and geothermal land drilling operations. The American multinational company – active across 24 countries – primarily provides land-based and offshore drilling rigs that serves the oil and gas industry. The company has a 100% ownership interest in a venture in Saudi Arabia – Nabors Arabia – which actively markets rigs. As of year-end 2019, Nabors' fleet consisted of 366 actively marketed land-based operating rigs and 33 offshore rigs.

The company offers a number of ancillary wellsite services, including oilfield management, engineering, transportation, construction, maintenance, well logging, and other support services in select domestic and international markets.

Nabors reports its operations in five major segments: U.S. Drilling, Canadian Drilling, International Drilling, Drilling Solutions and Rig Technologies.

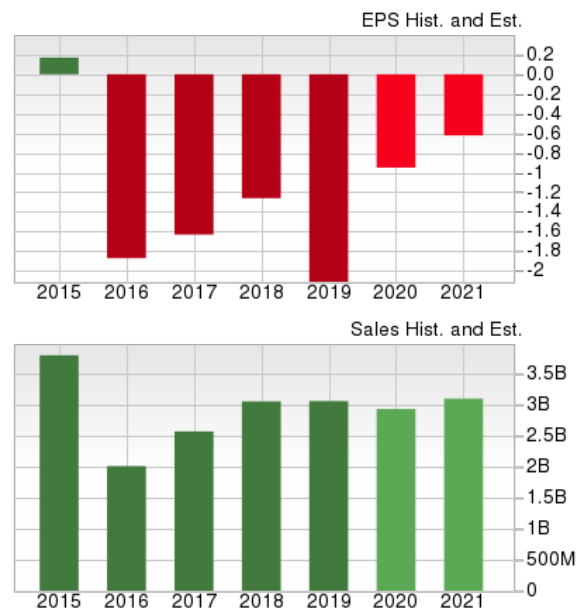
US Drilling: The firm's U.S. operations comprise of drilling activities in the Lower 48 and Alaska along with offshore activities in Gulf of Mexico. As of Dec 31, 2019, the U.S. fleet consisted of a total of 206 rigs. Revenues from this segment accounted for 40% of the total sales in 2019.

Canadian Drilling: As of Dec 31, 2019, the Canadian fleet consisted of a total of 35 rigs. Revenues from this segment accounted for 2% of the total sales in 2019.

International Drilling: Nabors has operations in almost every major energy-producing regions of the world. As of Dec 31, 2019, the Canadian fleet consisted of a total of 125 rigs. Revenues from this segment accounted for 42% of the total sales in 2019.

Drilling Solutions: The segment engages in providing specialized technology that optimizes drilling performance and wellbore placement. Revenues from this segment accounted for 8% of the total sales in 2019.

Rig Technologies: The segment deals in manufacturing drilling related equipment which are installed on both onshore and offshore drilling rigs. The unit also provides aftermarket sales and services for the installed base of its equipment. Revenues from this segment accounted for 8% of the total sales in 2019.



Reasons To Buy:

- ▲ Nabors is one of the leading North American land drilling contractor, having a large, high-quality fleet of drilling rigs. The company is well positioned with a sound mix of high-performance rigs and new rigs working in the key shale plays like Bakken and Permian. Improving high-spec rig count, dayrates and margins from its U.S. Drilling unit, especially Lower 48 region, is likely to buoy the segment's revenues and earnings going forward.
- ▲ Nabors' initiatives to expand its geographic reach and diversify its operating assets beyond land rigs bode well for its Rig Technologies and Drilling Solutions segments. Tesco Corporation, Robotic Drilling Systems and PetroMar's buyout have boosted the drilling operations and technology of Nabors, adding to the company's earnings and shareholder value. The firm's advanced technology and operational expertise along with additional penetration in the Drilling Solutions business will contribute in its future growth. Nabors' joint venture with Saudi Aramco also brightens its prospects.
- ▲ Nabors' efforts to lower costs and concentrate on cash flows also bodes well. The drilling contractor plans to limit 2020 capex in the range of \$350-\$370 million, lower than \$424 million incurred in 2019. For the current year, Nabors expects to generate free cash flow of at least \$300 million.

Nabors is well positioned with a sound mix of high-performance rigs and new rigs working in the key shale plays like Bakken and Permian.

Reasons To Sell:

- ▼ Oilfield service activities are expected to remain weak in North America with upstream energy companies choosing to remain conservative with their investment budgets. This is expected to hamper Nabors' near-term prospects.
- ▼ Nabors has also been hit hard by weak natural gas prices. No major commodity had a worse 2019 than natural gas. The fuel endured a torrid year, registering its worst annual decline since 2014. Prices tumbled more than 25% last year, as buyers fled the market over growing worries about record output and concerns of an ongoing supply glut. Natural gas continues to face bearish pressure in 2020 with warmer-than-expected winter weather playing spoilsport and taking the price below the psychologically important level of \$2. The price plunge led to sharply lower activity in gas-dominated basins like the Rockies, Haynesville, Mid-Continent and Marcellus, affecting the fortunes of Nabors.
- ▼ While Nabors' plans to strengthen its financials provide a ray of hope, one can't overlook the relatively stretched balance sheet of the firm with debt-to-capitalization ratio of more than 62%. This remains a cause for concern, restricting the financial flexibility of the firm.

Nabors' balance sheet looks stretched with debt-to-capitalization ratio of more than 62%.

Last Earnings Report

Nabors Reports In-Line Q4 Loss, Revenues Miss Mark

Nabors Industries Ltd.'s fourth-quarter 2019 loss from continuing operations (excluding special items) came in at 24 cents per share, in line with the Zacks Consensus Estimate, primarily due to weak performance of the International and U.S. drilling segments.

However, the bottom line is narrower than the year-ago adjusted loss of 25 cents owing to a marginal rise in daily gross margin, driven by stable pricing, excellent operating performance and a favourable rig mix.

Quarterly revenues of \$715.8 million fell short of the Zacks Consensus Estimate of \$743 million. Moreover, the top line was lower than the year-ago level of \$776.6 million.

Notably, year over year, Nabors' adjusted EBITDA grew from \$201.6 million to \$202.5 million.

Segmental Performance

U.S. Drilling segment generated quarterly operating revenues of \$289.5 million, down 4.71% from the year-ago level of \$303.8 million. The segment recorded an operating income of \$6.8 million, significantly lower than the year-ago income of \$8.9 million due to drop in the rig count at Lower 48.

Canadian Drilling segment's revenues came in at \$19.38 million in the quarter under review, down 33.22% from the year-ago figure of \$29.02 million. Moreover, the segment's operating loss came in at \$3.19 million against the year-ago quarter's income of \$0.93 million amid a weak market environment for rig components.

International Drilling segment's operational revenues of \$331.7 million decreased 3.9% from the year-ago quarter's \$345.08 million as well as lagged the Zacks Consensus Estimate of \$336 million. However, the segmental operating income of \$1.15 million in the reported quarter came in against the prior-year loss of \$0.48 million. The primary reason for this upside was a step forward in the earlier-implemented initiatives to reduce operating costs as well as operational efficiency.

Revenues from the **Drilling Solutions** segment were down to \$60.5 million in the fourth quarter from \$66.8 million a year ago and also missed the Zacks Consensus Estimate of \$62 million. However, the unit's operating income of \$16.7 million improved from \$11.85 million. This can be attributed to higher-margin international activity along with activities related to tubular running services (TRS) in the United States.

Revenues from the **Rig Technologies** segment decreased 14.3% to \$52.6 million from the prior-year level of \$61.4 million. The same also missed the Zacks Consensus Estimate of \$61 million. Moreover, the segment's operating loss widened to \$5.95 million from the prior-year loss of \$5.21 million. This downside is due to declined sales of parts alongside lower repair activity.

Financials

Total costs and expenses rose to \$974 million from \$920.2 million in the year-ago quarter, reflecting higher G&A costs and impairment charges.

As of Dec 31, 2019, the company had \$452.5 million in cash and short-term investments and \$3.33 billion as long-term debt with a debt-to-capitalization ratio of 62.7%.

Guidance

Per the company, competitive pressures are likely to dent daily margins of the U.S. Drilling segment to nearly \$10,000 in the first quarter of 2020 whereas for the Canadian Drilling segment, the company projects an increase in daily margin and a rise in rig count for the same period.

Nabors' full-year capex is projected in the range of \$350-\$370 million, lower than \$424 million incurred in 2019. For the current year, Nabors expects to generate free cash flow of at least \$300 million.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-3.69%
EPS Surprise	0.00%
Quarterly EPS	-0.24
Annual EPS (TTM)	-1.32

Valuation

Nabors' shares are down 45.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 48.7% and 25.3% over the past year, respectively.

The S&P 500 index is up 11.2% in the past year.

The stock is currently trading at 4.75X trailing 12-month EV/EBITDA, which compares to 10.19X for the Zacks sub-industry, 4.67X for the Zacks sector and 12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.59X and as low as 4.12X, with a 5-year median of 7.65X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3 price target reflects 0.35X F12M sales.

The table below shows summary valuation data for NBR

Valuation Multiples - NBR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	4.75	10.19	4.67	12
	5-Year High	15.59	13.01	10.26	12.87
	5-Year Low	4.12	4.07	4.59	8.48
	5-Year Median	7.65	8	6.52	10.77
P/S F12M	Current	0.21	0.7	0.74	3.29
	5-Year High	2.24	2.48	1.45	3.43
	5-Year Low	0.17	0.7	0.67	2.54
	5-Year Median	0.74	1.48	0.99	3
P/B TTM	Current	0.32	0.28	1.02	4.52
	5-Year High	1.58	0.91	1.6	4.9
	5-Year Low	0.23	0.28	1.02	2.85
	5-Year Median	0.7	0.58	1.31	3.62

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 255)



Top Peers

Diamond Offshore Drilling, Inc. (DO)	Neutral
Helmerich & Payne, Inc. (HP)	Neutral
Noble Corporation (NE)	Neutral
Precision Drilling Corporation (PDS)	Neutral
Patterson-UTI Energy, Inc. (PTEN)	Neutral
Transocean Ltd. (RIG)	Neutral
SAIPEM SPA SAN (SAPMF)	Neutral
Enasco plc (VAL)	Neutral

Industry Comparison Industry: Oil And Gas - Drilling				Industry Peers		
	NBR Neutral	X Industry	S&P 500	HP Neutral	PTEN Neutral	RIG Neutral
VGM Score	A	-	-	B	A	F
Market Cap	650.51 M	307.85 M	22.56 B	4.32 B	1.21 B	2.18 B
# of Analysts	9	4	13	5	11	7
Dividend Yield	2.23%	0.00%	1.88%	7.16%	2.54%	0.00%
Value Score	A	-	-	C	B	C
Cash/Price	0.54	0.49	0.04	0.08	0.12	0.92
EV/EBITDA	5.80	4.29	13.36	8.15	3.57	16.92
PEG Ratio	NA	14.56	1.94	14.56	NA	NA
Price/Book (P/B)	0.32	0.26	3.09	1.09	0.43	0.18
Price/Cash Flow (P/CF)	1.44	2.56	12.57	5.72	1.49	14.05
P/E (F1)	NA	15.90	17.93	80.65	NA	NA
Price/Sales (P/S)	0.21	0.32	2.51	1.62	0.49	0.71
Earnings Yield	-53.07%	-24.72%	5.55%	1.23%	-24.64%	-24.72%
Debt/Equity	1.63	0.75	0.70	0.12	0.35	0.73
Cash Flow (\$/share)	1.24	0.54	7.02	6.94	4.23	0.25
Growth Score	A	-	-	B	A	F
Hist. EPS Growth (3-5 yrs)	NA%	-35.28%	10.85%	-17.65%	NA	-54.01%
Proj. EPS Growth (F1/F0)	55.03%	14.24%	6.86%	-71.89%	-57.02%	39.61%
Curr. Cash Flow Growth	-10.72%	-15.52%	6.53%	25.65%	-21.95%	-72.37%
Hist. Cash Flow Growth (3-5 yrs)	-21.30%	-15.36%	8.38%	-8.86%	-2.53%	-44.46%
Current Ratio	1.90	1.90	1.22	2.75	1.58	2.11
Debt/Capital	61.92%	43.64%	42.37%	10.76%	25.95%	42.28%
Net Margin	-23.02%	-18.75%	11.57%	-0.82%	-17.23%	-40.64%
Return on Equity	-17.93%	-8.15%	16.80%	4.29%	-6.53%	-7.16%
Sales/Assets	0.42	0.40	0.54	0.45	0.50	0.12
Proj. Sales Growth (F1/F0)	-4.14%	-5.38%	4.03%	-11.60%	-23.43%	6.09%
Momentum Score	F	-	-	A	D	F
Daily Price Chg	-8.67%	-5.21%	-3.36%	-5.30%	-5.13%	-6.07%
1 Week Price Chg	1.32%	-1.86%	-0.94%	-0.90%	-2.27%	-7.96%
4 Week Price Chg	-26.34%	-23.66%	-5.65%	-2.36%	-21.96%	-25.37%
12 Week Price Chg	-9.14%	-17.94%	-1.04%	3.36%	-29.72%	-26.75%
52 Week Price Chg	-41.69%	-56.32%	8.00%	-26.33%	-53.82%	-56.32%
20 Day Average Volume	6,261,759	312,402	2,073,853	2,477,232	4,346,684	17,476,076
(F1) EPS Est 1 week change	-5.69%	0.00%	0.00%	0.00%	0.00%	-0.99%
(F1) EPS Est 4 week change	-7.42%	0.00%	-0.06%	35.48%	-9.48%	-4.79%
(F1) EPS Est 12 week change	-17.96%	0.00%	-0.19%	0.00%	-18.50%	-2.17%
(Q1) EPS Est Mthly Chg	-12.61%	-1.43%	-0.61%	48.21%	-16.45%	-48.86%

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	A
Momentum Score	F
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.

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