Jan 31, 2020

Nabors Industries Ltd. (NBR)

$2.33 (As of 01/30/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/11/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: A | Momentum: F	**3-Hold** VGM:A

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 60% restricts its financial flexibility. Further, the company is witnessing lower margins and tough operating environment in International markets which are expected to prevail in the near-term as well. Investors also need to factor the increasing costs of the company. As such, Nabors warrants a cautious stance from the investors at the moment.

Price, Consensus & Surprise

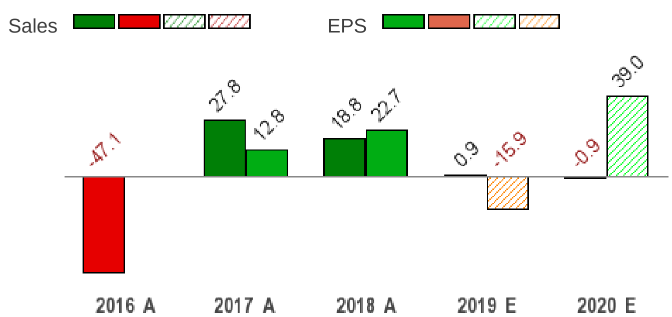
Data Overview

52 Week High-Low	**$4.08 - $1.50**
20 Day Average Volume (sh)	**8,443,187**
Market Cap	**$846.8 M**
YTD Price Change	**-19.1%**
Beta	**2.90**
Dividend / Div Yld	**$0.04 / 1.7%**
Industry	**Oil and Gas - Drilling**
Zacks Industry Rank	**Bottom 34% (168 out of 255)**

Last EPS Surprise	**-34.8%**
Last Sales Surprise	**-2.4%**
EPS F1 Est- 4 week change	**-3.2%**
Expected Report Date	**02/25/2020**
Earnings ESP	**-3.6%**

P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	736 E	736 E	760 E	780 E	3,049 E
2019	809 A	772 A	757 A	743 E	3,076 E
2018	735 A	759 A	778 A	777 A	3,048 A

EPS Estimates

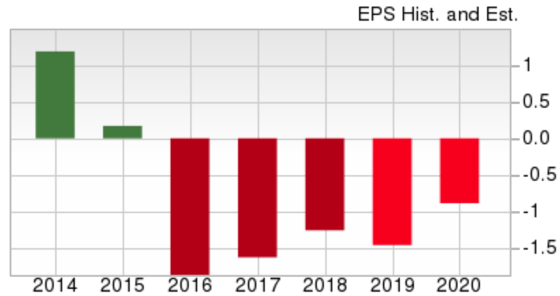
	Q1	Q2	Q3	Q4	Annual*
2020	-$0.22 E	-$0.22 E	-$0.18 E	-$0.16 E	-$0.89 E
2019	-$0.36 A	-$0.41 A	-$0.31 A	-$0.24 A	-$1.46 E
2018	-$0.29 A	-$0.39 A	-$0.31 A	-$0.25 A	-$1.26 A

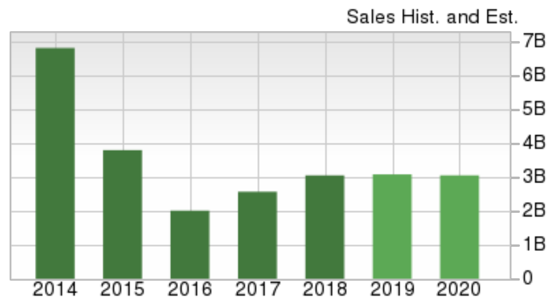
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/30/2020. The reports text is as of 01/31/2020.

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 25 countries – 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 2018, Nabors' fleet consisted of 223 operating 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, 2018, the U.S. fleet consisted of a total of 210 rigs. Revenues from this segment accounted for 34.1% of the total sales in 2018.

Canadian Drilling: As of Dec 31, 2018, the Canadian fleet consisted of a total of 44 rigs. Revenues from this segment accounted for 3.3% of the total sales in 2018.

International Drilling: Nabors has operations in almost every major energy-producing regions of the world. As of Dec 31, 2018, the Canadian fleet consisted of a total of 133 rigs. Revenues from this segment accounted for 46.2% of the total sales in 2018

Drilling Solutions: The segment engages in providing specialized technology that optimizes drilling performance and wellbore placement. Revenues from this segment accounted for 7.8% of the total sales in 2018.

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 8.6% of the total sales in 2018.

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

- ▲ 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 clean up the balance sheet bode well. The drilling contractor plans to deleverage itself in 2019 via reduced capex, dividends and interest payments. The company remains focused to reduce its debt by more than $200 million within the year end and by $600-$700 million through 2020.

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 been hit hard by lower margins in its International and Canadian segments in its latest quarterly numbers. The company expects the rig count in the international segment to remain flat in the upcoming quarter as well. Uncertain market conditions in Venezuela are also to prevail, dampening the prospects of international recovery.

Escalating expenses have increased the leverage of the company, which is likely to affect its credit metrics adversely.

- 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 60%. This remains a cause for concern, restricting the financial flexibility of the firm.

Last Earnings Report

Nabors Q3 Loss Wider Than Expected, Revenues Miss Mark

Quarter Ending	09/2019
Report Date	Oct 29, 2019
Sales Surprise	-2.37%
EPS Surprise	-34.78%
Quarterly EPS	-0.31
Annual EPS (TTM)	-1.33

Nabors Industries Ltd.'s third-quarter 2019 loss from continuing operations (excluding special items) came in at 31 cents per share, wider than the Zacks Consensus Estimate of 23 cents, primarily due to weak performance of the Canadian and International drilling segment.

Meanwhile, the bottom line is in line with the year-ago adjusted loss.

Quarterly revenues of $757 million fell short of the Zacks Consensus Estimate of $775 million. Moreover, the top line was lower than the year-ago level of $778 million.

Notably, year over year, Nabors' adjusted EBITDA grew from $201 million to $207 million, reflecting a 3% rise on improved daily gross margin resulting from stable pricing, excellent operating performance and a favourable rig mix.

Segmental Performance

U.S. Drilling segment generated quarterly operating revenues of $307.8 million, up 12.34% from the year-ago level of $274 million. The segment recorded an operating income of $12.4 million, significantly higher than the year-ago income of $2.6 million as robust utilization of high-specification rigs more than offset the lower rig count.

Canadian Drilling segment's revenues came in at $12.2 million in the quarter under review, down 54.24% from the year-ago figure of $26.6 million. The figure also missed the Zacks Consensus Estimate of $17.75 million. Moreover, the segment's operating loss widened to $5.7 million from $1.9 million in the corresponding quarter of 2018 amid weak market environment.

International Drilling segment's operational revenues of $328.3 million decreased 13% from the year-ago quarter's $377.1 million as well as lagged the Zacks Consensus Estimate of $339 million. The segmental operating income of $2.4 million in the quarter under review declined from the prior-year income of $25.7 million. The primary reason for this decline is lower rig activity.

Revenues from the **Drilling Solutions** segment increased to $62.3 million in the third quarter from $60.9 million a year ago. The unit's operating income of $16.1 million improved from $9.5 million. This can be attributed to higher margin international activity along with jobs related to tubular running services (TRS) in the United States.

Revenues from the **Rig Technologies** segment decreased marginally to $63.1 million from the prior-year level of $63.6 million. The same also missed the Zacks Consensus Estimate of $76 million. However, the segment's loss narrowed to $641,000 from the prior-year loss of $4.1 million. This upside is driven by an increased contribution from the core Canrig aftermarket business and tubular projects.

Financials

Total costs and expenses are reduced to $832.5 million from $861.3 million in the year-ago quarter, reflecting lower direct costs and impairment charges.

As of Sep 30, the company had $418.9 million in cash and short-term investments plus $3.52 billion in long-term debt with a debt-to-capitalization ratio of approximately 60.03%.

Guidance & Outlook

Nabors expects drilling activity in Lower 48 to be persistently subdued by a "couple of hundred dollars" in the fourth quarter.

The company estimates rig count in the international segment to be sequentially similar in the fourth quarter.

The Canadian segment is projected to experience an uptick in the fourth quarter, aided by a recovering daily margin and higher rig count.

The adjusted EBITDA from the Drilling Solutions and Rig Technologies segment is expected to be in line with the sequential quarter's figure in the fourth quarter.

For the fourth quarter, Nabors predicts its EBITDA between $200 million and $205 million.

Nabors' full-year capex is projected in the range of $400-$410million. The company expects to generate positive free cash flow after paying out dividends in the fourth quarter. It is firmly focused on lowering net debt by more than $200 million this year and anticipates free cash flow of roughly $300 million through 2020.

Valuation

Nabors' shares are down 24.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 38.3% and 10.4% over the past year, respectively.

The S&P 500 index is up 22.6% in the past year.

The stock is currently trading at 5.17X trailing 12-month EV/EBITDA, which compares to 8.16X for the Zacks sub-industry, 4.9X for the Zacks sector and 12.25X 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 7.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $3 price target reflects 0.36X 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	5.17	8.16	4.9	12.25
	5-Year High	15.59	13.01	10.19	12.86
	5-Year Low	4.12	4.07	4.57	8.48
	5-Year Median	7.62	8.14	6.5	10.7
P/S F12M	Current	0.28	0.83	0.82	3.49
	5-Year High	2.24	2.48	1.44	3.49
	5-Year Low	0.17	0.79	0.67	2.54
	5-Year Median	0.74	1.48	0.99	3
P/B TTM	Current	0.36	0.36	1.16	4.48
	5-Year High	1.58	0.91	1.59	4.55
	5-Year Low	0.23	0.32	1.02	2.85
	5-Year Median	0.71	0.58	1.31	3.62

As of 01/30/2020

Industry Analysis **Zacks Industry Rank:** Bottom 34% (168 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
Parker Drilling Company **(PKD)**	Neutral
Patterson-UTI Energy, Inc. **(PTEN)**	Neutral
Transocean Ltd. **(RIG)**	Neutral
Ensco 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	-	-	C	A	D
Market Cap	846.76 M	327.72 M	23.94 B	4.45 B	1.56 B	2.90 B
# of Analysts	5	5	13	10	7	3
Dividend Yield	1.72%	0.00%	1.77%	7.00%	1.99%	0.00%
Value Score	B	-	-	C	A	C
Cash/Price	0.46	0.40	0.04	0.09	0.10	0.79
EV/EBITDA	6.48	3.74	14.14	8.40	2.94	-42.15
PEG Ratio	NA	8.41	2.01	8.41	NA	NA
Price/Book (P/B)	0.36	0.31	3.25	1.11	0.53	0.24
Price/Cash Flow (P/CF)	1.65	3.12	13.56	5.85	1.66	5.15
P/E (F1)	NA	16.37	18.90	135.69	NA	NA
Price/Sales (P/S)	0.27	0.44	2.64	1.59	0.56	0.95
Earnings Yield	-38.20%	-17.91%	5.28%	0.74%	-17.91%	-17.72%
Debt/Equity	1.50	0.76	0.72	0.12	0.34	0.76
Cash Flow ($/share)	1.41	0.62	6.92	6.94	4.85	0.92
Growth Score	A	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	NA%	-34.19%	10.68%	-27.87%	NA	-50.60%
Proj. EPS Growth (F1/F0)	39.20%	14.24%	7.59%	-82.91%	-45.31%	36.53%
Curr. Cash Flow Growth	25.23%	-20.32%	10.81%	25.65%	68.92%	-30.57%
Hist. Cash Flow Growth (3-5 yrs)	-18.32%	-16.19%	8.78%	-8.86%	5.41%	-26.35%
Current Ratio	2.02	1.85	1.22	2.72	1.54	2.53
Debt/Capital	60.04%	43.64%	42.99%	10.67%	25.18%	43.09%
Net Margin	-20.02%	-19.76%	11.69%	-1.20%	-19.50%	-47.50%
Return on Equity	-16.80%	-7.51%	17.33%	4.68%	-3.85%	-6.26%
Sales/Assets	0.41	0.40	0.55	0.47	0.54	0.12
Proj. Sales Growth (F1/F0)	-0.90%	-0.90%	4.12%	-12.54%	-16.77%	4.96%
Momentum Score	F	-	-	F	D	B
Daily Price Chg	-0.85%	0.11%	0.36%	2.45%	2.16%	0.21%
1 Week Price Chg	-14.43%	-9.17%	-1.09%	-6.43%	-14.67%	-14.57%
4 Week Price Chg	-21.28%	-21.28%	-0.22%	-10.38%	-23.36%	-31.60%
12 Week Price Chg	10.43%	-12.35%	4.08%	-0.54%	-11.26%	-12.38%
52 Week Price Chg	-21.28%	-44.69%	16.06%	-27.54%	-33.72%	-44.69%
20 Day Average Volume	8,443,187	275,176	1,808,632	1,609,787	3,088,448	16,157,973
(F1) EPS Est 1 week change	-0.63%	0.00%	0.00%	0.00%	-1.60%	0.00%
(F1) EPS Est 4 week change	-3.23%	0.00%	0.00%	-12.32%	-7.01%	1.18%
(F1) EPS Est 12 week change	-11.25%	-9.50%	-0.09%	-55.97%	-16.35%	0.00%
(Q1) EPS Est Mthly Chg	-0.91%	-0.87%	0.00%	-7.55%	-4.48%	2.47%

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	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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