

National Oilwell (NOV)

\$13.35 (As of 06/03/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM: C

Value: C

Growth: A

Momentum: F

Summary

National Oilwell Varco is set to benefit from a series of acquisitions, which have expanded its directional drilling and diversified its completion tools offering. In particular, the GustoMSC acquisition has strengthened National Oilwell's hold in the offshore industry. However, a tough operating environment and weakness in commodity prices are likely to hamper the firms's performance in the coming quarters. Apart from the tightness in the upstream companies' investment budget due to weak crude prices, National Oilwell Varco's recent pains could also be attributed to decline in onshore capital equipment sales. It has a weak financial position with high leverage for its sector. This accounts for our conservative stance.

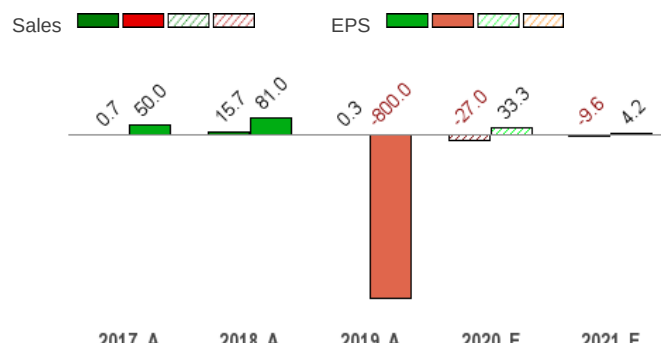
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.81 - \$8.00
20 Day Average Volume (sh)	3,574,936
Market Cap	\$5.2 B
YTD Price Change	-46.7%
Beta	1.80
Dividend / Div Yld	\$0.20 / 1.5%
Industry	Oil and Gas - Mechanical and Equipment
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	07/27/2020
Earnings ESP	-25.0%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,343 E	1,365 E	1,463 E	1,609 E	5,594 E
2020	1,883 A	1,580 E	1,416 E	1,344 E	6,189 E
2019	1,940 A	2,132 A	2,126 A	2,281 A	8,479 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.17 E	-\$0.15 E	-\$0.11 E	-\$0.05 E	-\$0.46 E
2020	\$0.14 A	-\$0.10 E	-\$0.15 E	-\$0.15 E	-\$0.48 E
2019	-\$0.20 A	-\$0.04 A	-\$0.61 A	\$0.13 A	-\$0.72 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 06/03/2020. The reports text is as of 06/04/2020.

Overview

Incorporated in 1995, Houston, TX based National Oilwell Varco, Inc., formerly National Oilwell, is a world leader in the design, manufacture, and sale of comprehensive systems, components, products, and equipment used in oil and gas drilling and production worldwide. The company's extensive portfolio of proprietary technologies is aimed at lowering the industry's marginal cost per barrel.

National Oilwell Varco operates in 620 locations across six continents. For the year ended Dec 31, 2019, the company reported operating loss of \$6,279 million on revenues of \$8.48 billion. National Oilwell Varco generates around 45% of its revenues in North America.

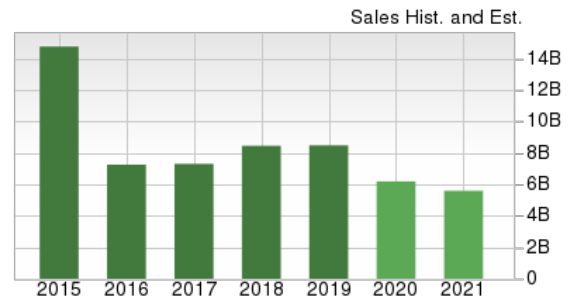
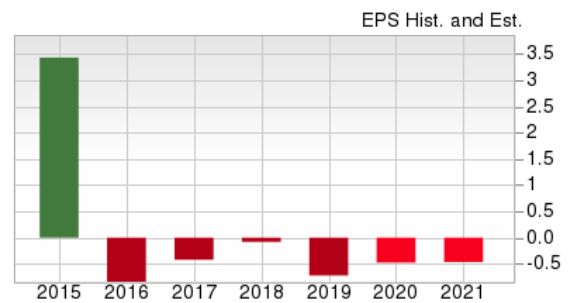
The company reached its current form following the March 2005 merger between National Oilwell and Varco International. National Oilwell Varco divides its operations into three major segments: Rig Technologies, Completion & Production Solutions, and Wellbore Technologies.

Rig Technologies: The Rig Technologies unit (accounted for 30% of the company's 2019 adjusted EBITDA) designs and manufactures integrated drilling systems and components for land and offshore drilling rigs. It is also engaged in the delivery of consumables, spares and other necessary services to maintain the usefulness of the assets.

Completion & Production Solutions: The Completion & Production Solutions segment (23%) primarily focuses on developing wellbore completions and achieving higher production through technological advancements. This segment mainly offers services to well intervention service providers and producers of oil and gas.

Wellbore Technologies: The Wellbore Technologies segment (47%) focuses on improving drilling performance at both land and offshore rigs through a vast array of tools and services.

National-Oilwell Varco has a solid track record of making and executing acquisitions. Over the last three years (2016-2018), the company paid approximately \$600 million in cash to complete a host of acquisitions. Since its merger with Varco International, the company has emerged as a major one-stop-shop for the drilling industry, providing both capital equipment and support and supply services.



Reasons To Buy:

- ▲ The growing search for oil in deepwater frontiers has increased the demand for rigs capable of tackling the immense challenges of drilling in a mile or more of water. National Oilwell is well positioned to supply such equipment.
- ▲ Of late, the company has embarked on a series of acquisitions, which have expanded its directional drilling and diversified its completion tools offering. The acquisition of GustoMSC has strengthened national Oilwell's hold in the offshore industry. The company's joint venture with Saudi Aramco is also expected to support National Oilwell's drilling technology franchise and contribute to earnings.
- ▲ National Oilwell Varco is one of the biggest manufacturers of drilling equipment in the world with an impressive business model. The company's large installed base of rigs worldwide provides a steady recurring revenue stream driven by demand for maintenance, parts and other expendable products. The company is also a global leader in solids control technology and waste management.

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Reasons To Sell:

- ▼ While National Oilwell's impressive portfolio of products and services is much appreciated, a tough operating environment and weakness in commodity prices are likely to hamper the company's performance in the coming quarters.
- ▼ For operators in North America, where oil production has reached record levels, it's more about the returns and not growth. The volatility in commodity price has convinced explorers and producers to take a relatively conservative approach on capital expenditure programs. This shift in customer strategy is likely to result in declining demand for National Oilwell's products and services. In particular, the company's Rig Technologies segment's recent results were impacted by lower capital equipment sales.
- ▼ National Oilwell's total debt is currently more than \$2 billion. Importantly, the company's debt-to-capitalization as of the end of the first quarter was 26.5%, deteriorating from 20.2% a quarter ago and quite high versus 23.1% for the sub industry to which it belongs. This poses a risk to the company's balance sheet.

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Last Earnings Report

National Oilwell Q1 Earnings Surpass Estimates

National Oilwell Varco, delivered adjusted earnings of 14 cents per share in first-quarter 2020, beating the Zacks Consensus Estimate of 10 cents. Moreover, the bottom line rebounded from the year-ago loss of 20 cents per share. Particularly, strong contribution from the Completion & Production Solutions segment led to this outperformance.

Total revenues of \$1.88 billion underperformed the Zacks Consensus Estimate of \$1.98 billion and also dipped 2.9% from the year-ago number of \$1.94 billion due to weakness in the Wellbore Technologies unit.

Quarter Ending **03/2020**

Report Date	Apr 27, 2020
Sales Surprise	-4.67%
EPS Surprise	40.00%
Quarterly EPS	0.14
Annual EPS (TTM)	-0.38

Segmental Performance

Rig Technologies: Revenues of \$557 million from this segment missed the Zacks Consensus Estimate of \$664 million as well as declined from the year-ago quarter's \$603 million, thanks to a drop in capital equipment sales and waning aftermarket revenues, resulting from coronavirus-induced woes. The unit's adjusted EBITDA of \$56 million was in line with the year-earlier quarter's figure.

Wellbore Technologies: Segmental revenues matched the Zacks Consensus Estimate but fell 14% year over year to \$691 million as a result of reduced drilling operations in North America and seasonality in international markets. Moreover, the unit's adjusted EBITDA of \$103 million decreased from the prior-year's \$117 million.

Completion & Production Solutions: Revenues of \$675 million were up 16% from \$581 million in the year-earlier quarter as offshore and international demand remained solid. The unit recorded adjusted EBITDA of \$71million, 153.6% higher than the year-ago figure of \$28 million.

Backlog

Capital equipment order backlog for Rig Technologies was \$2.93 billion as of Mar 31, 2020 including \$146 million worth of new orders.

Meanwhile, the Completion & Production Solutions' backlog for capital equipment orders totalled \$1.19 billion at the end of the first quarter. The figure included \$335 million worth of new orders.

Balance Sheet

As of Mar 31, 2020, the company had cash and cash equivalents worth \$1.11 billion and a long-term debt of \$2 billion. The debt-to-capitalization was 26.5%.

The Path Ahead

The domestic oil producers are unlikely to increase their spending anytime soon following the coronavirus pandemic's adverse impact on global energy demand. In response to the market dynamics, National Oilwell Varco will likely sustain its disciplined approach to capital spending and improvement in its efficiency level.

Valuation

Shares of National Oilwell declined 46.7% and 35.1% in the year to date and over the trailing 12-month period, respectively. Stocks in the Zacks sub industry and Zacks Oil-Energy sector are down 45.1% and 34.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 41.4% and 34%, respectively.

The S&P 500 index is down 4.4% and up 9.2% in the year-to-date period and over last year, respectively.

The stock is currently trading at 1.17X trailing 12-month EV/EBITDA, which compares to 1.09X for the Zacks sub-industry, 4.12X for the Zacks sector and 11.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.26X and as low as 0.87X, with a 5-year median of 5.96X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$14 price target reflects 0.91X F12M sales.

The table below shows summary valuation data for NOV

Valuation Multiples - NOV					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	1.17	1.09	4.12	11.4
	5-Year High	34.26	26.11	10.43	12.86
	5-Year Low	0.87	0.84	3.02	8.26
	5-Year Median	5.96	5.51	6.5	10.81
P/S F12M	Current	0.87	0.49	0.77	3.47
	5-Year High	2.12	1.67	1.46	3.47
	5-Year Low	0.39	0.37	0.58	2.53
	5-Year Median	1.44	1.1	0.99	3.02
P/B TTM	Current	0.93	0.75	0.91	4.21
	5-Year High	1.33	1.03	1.54	4.56
	5-Year Low	0.42	0.34	0.51	2.83
	5-Year Median	0.9	0.78	1.31	3.66

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
NOW Inc. (DNOW)	Neutral	3
DrilQuip, Inc. (DRQ)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Exterran Corporation (EXTN)	Neutral	3
Forum Energy Technologies, Inc. (FET)	Neutral	4
Matrix Service Company (MTRX)	Neutral	3
Oil States International, Inc. (OIS)	Neutral	3
Weatherford International PLC (WFTIQ)	Neutral	3

Industry Comparison Industry: Oil And Gas - Mechanical And And Equipment				Industry Peers		
	NOV	X Industry	S&P 500	DNOW	DRQ	WFTIQ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	C	-	-	B	F	-
Market Cap	5.18 B	53.96 M	22.50 B	834.02 M	1.12 B	NA
# of Analysts	10	2	14	8	4	2
Dividend Yield	1.50%	0.00%	1.88%	0.00%	0.00%	%
Value Score	C	-	-	B	D	C
Cash/Price	0.23	0.24	0.06	0.25	0.32	NA
EV/EBITDA	-2.74	7.19	12.98	8.72	17.48	NA
PEG Ratio	NA	4.87	3.05	NA	NA	NA
Price/Book (P/B)	0.93	0.73	3.11	1.09	1.11	NA
Price/Cash Flow (P/CF)	1.33	4.10	12.18	4.26	31.52	NA
P/E (F1)	NA	35.69	22.19	NA	NA	NA
Price/Sales (P/S)	0.62	0.36	2.40	0.30	2.69	NA
Earnings Yield	-3.60%	-21.97%	4.31%	-8.78%	-1.94%	NA%
Debt/Equity	0.36	0.04	0.76	0.04	0.00	1.15
Cash Flow (\$/share)	10.03	1.76	7.01	1.79	1.02	4.85
Growth Score	A	-	-	A	F	D
Hist. EPS Growth (3-5 yrs)	NA%	-33.82%	10.87%	NA	-61.52%	NA
Proj. EPS Growth (F1/F0)	34.03%	-237.48%	-10.74%	-390.22%	-875.00%	-746.30%
Curr. Cash Flow Growth	487.41%	19.78%	5.48%	143.75%	210.74%	158.27%
Hist. Cash Flow Growth (3-5 yrs)	0.71%	-2.89%	8.55%	7.32%	-31.09%	17.70%
Current Ratio	2.73	2.05	1.29	2.65	8.84	2.05
Debt/Capital	26.50%	9.20%	44.75%	3.88%	0.37%	53.56%
Net Margin	-95.76%	-15.55%	10.59%	-16.10%	-2.86%	61.96%
Return on Equity	-1.94%	-6.29%	16.29%	0.45%	0.61%	-380.22%
Sales/Assets	0.65	0.72	0.55	1.72	0.35	0.78
Proj. Sales Growth (F1/F0)	-27.01%	-4.93%	-2.65%	-39.33%	-14.12%	-27.12%
Momentum Score	F	-	-	D	F	-
Daily Price Chg	5.20%	0.85%	2.42%	-1.80%	0.44%	NA%
1 Week Price Chg	3.14%	3.06%	4.60%	8.28%	12.31%	NA%
4 Week Price Chg	13.14%	21.22%	13.40%	28.02%	15.90%	NA%
12 Week Price Chg	27.39%	6.87%	12.78%	13.04%	7.67%	NA
52 Week Price Chg	-35.13%	-57.69%	0.89%	-44.02%	-24.35%	NA
20 Day Average Volume	3,574,936	286,944	2,528,787	1,082,110	343,181	0
(F1) EPS Est 1 week change	-1.06%	0.00%	0.00%	1.11%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.50%	-24.62%	-0.14%	-101.51%	-171.94%	-61.48%
(F1) EPS Est 12 week change	-167.22%	-170.94%	-16.00%	-812.00%	-122.16%	-498.69%
(Q1) EPS Est Mthly Chg	-17.00%	-50.00%	-0.02%	-136.36%	-212.50%	-12.90%

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	C
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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