

National Oilwell (NOV)

\$24.11 (As of 01/08/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

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. The GustoMSC acquisition has strengthened National Oilwell's hold in the offshore industry. It has experienced upturns in its Completions & Production Solutions order arrivals. In the most recent quarter, the oilfield equipment supplier's order inflows totalled a healthy \$535 million. 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's recent pains could also be attributed to decline in onshore capital equipment sales. This accounts for our conservative stance.

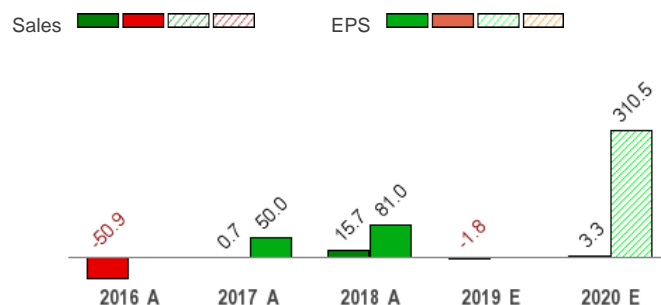
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.63 - \$18.05
20 Day Average Volume (sh)	2,484,402
Market Cap	\$9.3 B
YTD Price Change	-3.8%
Beta	1.36
Dividend / Div Yld	\$0.20 / 0.8%
Industry	<u>Oil and Gas - Mechanical and Equipment</u>
Zacks Industry Rank	Bottom 17% (212 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-710.0%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-3.8%
Expected Report Date	02/06/2020
Earnings ESP	6.3%
P/E TTM	NA
P/E F1	30.9
PEG F1	2.1
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,024 E	2,097 E	2,147 E	2,181 E	8,577 E
2019	1,940 A	2,132 A	2,126 A	2,106 E	8,302 E
2018	1,795 A	2,106 A	2,154 A	2,398 A	8,453 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.15 E	\$0.19 E	\$0.23 E	\$0.26 E	\$0.78 E
2019	-\$0.20 A	-\$0.04 A	-\$0.61 A	\$0.16 E	\$0.19 E
2018	-\$0.18 A	\$0.06 A	\$0.00 A	\$0.03 A	-\$0.08 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 01/08/2020. The reports text is as of 01/09/2020.

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, 2018, the company reported operating income of \$211 million on revenues of \$8.45 billion. National Oilwell Varco generates around 45% of its revenues in North America.

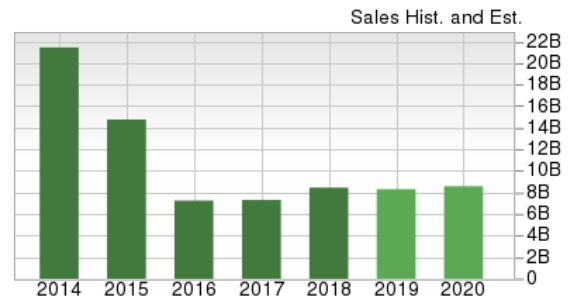
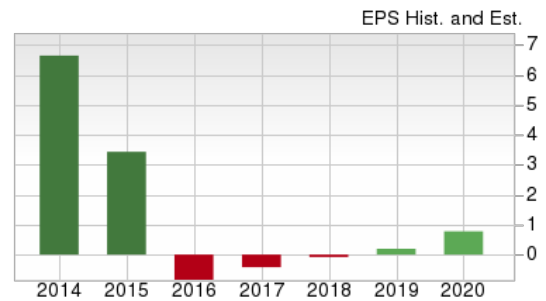
The company reached its current form following the March 2005 merger between National Oilwell and Varco International. National Oilwell Varco divides its operations into three major segments: Rig Technologies, Completion & Production Solutions, and Wellbore Technologies.

Rig Technologies: The Rig Technologies unit (accounted for 34% of the company's 2018 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 (41.5%) 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 (58%) 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 has experienced upturns in its Completions & Production Solutions order arrivals. In the third quarter of 2019, the company's order inflows totaled an impressive \$535 million.
- ▲ 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.
- ▲ Moreover, the company's debt-to-capital ratio stands at 23.4%, which is much lower than most of its peers. The low leverage increase National Oilwell's financial flexibility, helping the company to tap various growth opportunities.

The company's joint venture with Saudi Aramco is also expected to support National Oilwell's drilling technology franchise and contribute to earnings.

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 North American onshore capital equipment sales.
- ▼ National Oilwell Varco's recent earnings and revenue have been affected by sluggish pressure pumping operations, where pricing has become unreasonably low due to weak hydraulic fracturing activity. What's even worse is that the weak pressure pumping sentiment is expected to persist through 2019.
- ▼ Following the acquisition of Denmark-based NKT Flexibles, National Oilwell Varco has become a top player in the lucrative floating production, storage and offloading (FPSO) market. However, the next few quarters are expected to be challenging in the FPSO space as low commodity prices have prompted clients to reassess the scope of such projects and look for ways to reduce costs.

A tough operating environment and weakness in commodity prices are likely to hamper the company's performance in the coming quarters.

Last Earnings Report

National Oilwell Varco Posts Surprise Q3 Loss

National Oilwell Varco incurred an adjusted loss of 61 cents per share in third-quarter 2019, versus the Zacks Consensus Estimate for earnings of 10 cents. The bottom line also fell from the break-even earnings of the year-ago quarter as North American drillers scale back their production growth plans, leaving less scope of work for the likes of National Oilwell Varco. Particularly, weaker-than-expected revenue contribution from the Rig Technologies and the Wellbore Technologies segments caused this underperformance.

Rig Technologies segment's revenues of \$649 million missed the Zacks Consensus Estimate of \$686 million due to lower North American onshore capital equipment sales.

Further, revenues from the Wellbore Technologies segment came in at \$793 million, significantly below the Zacks Consensus Estimate of \$839 million. The unit's disappointing performance is due to soft demand for the unit's products and services in a contracting North American market.

Moreover, total revenues of \$2.13 billion lagged the Zacks Consensus Estimate of \$2.17 billion and also dipped 0.9% from the year-ago period.

Segmental Performance

Rig Technologies: Revenues came in at \$649 million compared with \$637 million in the year-ago quarter, reflecting a 1.8% increase owing to higher offshore rig activity and better sales from aftermarket operations. Moreover, the unit's adjusted EBITDA was \$105 million, up 34.61% from \$78 million in the year-ago quarter. This gain is backed by the company's cost-cutting initiatives.

Wellbore Technologies: Segmental revenues fell 6.3% year over year to \$793 million as a result of reduced drillpipe deliveries and waning demand for the unit's short-cycle products. Meanwhile, the unit's adjusted EBITDA of \$133 million slipped from last year's \$135 million.

Completion & Production Solutions: Revenues at the segment were \$728 million, down 1% from \$735 million in the year-earlier quarter. The unit recorded adjusted EBITDA of \$82 million, which is 17.2% lower than the year-ago figure of \$99 million as customers continue to focus on minimal spending.

Backlog

Capital equipment order backlog for Rig Technologies was \$3.14 billion as of Sep 30, 2019 including \$221 million worth of new orders.

Meanwhile, the Completion & Production Solutions segment's backlog for capital equipment orders totalled \$1.3 billion at the end of the third quarter. The figure included \$535 million worth of new orders.

Balance Sheet

As of Sep 30, 2019, the company had cash and cash equivalents of \$1.31 billion and long-term debt of \$2.48 billion. The debt-to-capitalization ratio was 23.4%.

Meanwhile, National Oilwell's third-quarter cash flow is the strongest in more than three years, courtesy of efficient capital program management.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	-1.93%
EPS Surprise	-710.00%
Quarterly EPS	-0.61
Annual EPS (TTM)	-0.82

Valuation

Shares of National Oilwell declined 16.1% over the trailing 12-month period, respectively. Stocks in the Zacks sub industry and Zacks Oil-Energy sector are down 20.4% and 5.5%, respectively, over the past year.

The S&P 500 index is up 24.8% over last year.

The stock is currently trading at 3.29X trailing 12-month EV/EBITDA, which compares to 2.21X for the Zacks sub-industry, 5.09X for the Zacks sector and 11.99X for the S&P 500 index.

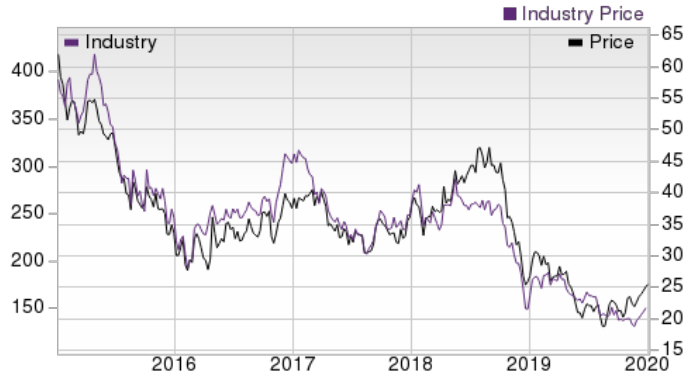
Over the past five years, the stock has traded as high as 33.77X and as low as 2.37X, with a 5-year median of 7.25X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$26 price target reflects 1.17X F12M sales.

The table below shows summary valuation data for NOV

Valuation Multiples - NOV					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	3.29	2.21	5.09	11.99
	5-Year High	33.77	22.6	10.22	12.86
	5-Year Low	2.37	2.02	4.55	8.48
	5-Year Median	7.25	5.23	6.5	10.67
P/S F12M	Current	1.08	0.5	0.9	3.49
	5-Year High	2.12	1.59	1.44	3.49
	5-Year Low	0.79	0.47	0.66	2.54
	5-Year Median	1.45	1.04	0.99	3
P/B TTM	Current	1.14	0.96	1.23	4.44
	5-Year High	1.33	1.02	1.59	4.45
	5-Year Low	0.56	0.49	1.02	1.02
	5-Year Median	0.92	0.8	1.31	1.31

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (212 out of 254)



Top Peers

NOW Inc. (DNOW)	Neutral
Exterran Corporation (EXTN)	Neutral
Forum Energy Technologies, Inc. (FET)	Neutral
McDermott International, Inc. (MDR)	Neutral
Matrix Service Company (MTRX)	Neutral
Oil States International, Inc. (OIS)	Neutral
Weatherford International PLC (WFTIQ)	Neutral
Baker Hughes Company (BKR)	Underperform

Industry Comparison Industry: Oil And Gas - Mechanical And And Equipment				Industry Peers		
	NOV Neutral	X Industry	S&P 500	DNOW Neutral	MDR Neutral	WFTIQ Neutral
VGM Score	C	-	-	B	C	-
Market Cap	9.30 B	143.64 M	23.84 B	1.25 B	143.64 M	M
# of Analysts	8	2	13	7	1	1
Dividend Yield	0.83%	0.00%	1.79%	0.00%	0.00%	%
Value Score	B	-	-	B	A	D
Cash/Price	0.13	0.15	0.04	0.09	8.24	NA
EV/EBITDA	12.71	5.49	13.88	11.84	-3.31	NA
PEG Ratio	2.04	2.20	2.02	NA	NA	NA
Price/Book (P/B)	1.14	0.99	3.33	0.99	NA	NA
Price/Cash Flow (P/CF)	14.03	6.65	13.76	15.56	0.06	NA
P/E (F1)	30.60	31.08	18.76	31.89	1.55	NA
Price/Sales (P/S)	1.08	0.87	2.63	0.41	0.02	NA
Earnings Yield	3.24%	2.51%	5.32%	3.14%	64.56%	NA%
Debt/Equity	0.31	0.07	0.72	0.03	-0.22	-1.47
Cash Flow (\$/share)	1.72	1.77	6.94	0.74	12.95	1.88
Growth Score	C	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	NA%	-38.67%	10.56%	NA	36.65%	NA
Proj. EPS Growth (F1/F0)	336.40%	61.62%	7.46%	17.21%	254.55%	42.67%
Curr. Cash Flow Growth	21.36%	14.60%	14.83%	280.95%	689.48%	-640.40%
Hist. Cash Flow Growth (3-5 yrs)	-26.63%	-2.89%	9.00%	-13.37%	62.14%	0.22%
Current Ratio	2.86	2.38	1.23	2.44	0.40	1.16
Debt/Capital	23.41%	11.89%	42.99%	2.76%	87.52%	NA
Net Margin	-66.29%	-17.71%	11.08%	1.89%	-56.57%	-68.93%
Return on Equity	-2.82%	-2.82%	17.16%	3.45%	-349.92%	NA
Sales/Assets	0.50	0.82	0.55	1.68	0.89	0.84
Proj. Sales Growth (F1/F0)	3.31%	2.86%	4.16%	-2.37%	23.96%	-3.62%
Momentum Score	F	-	-	F	F	-
Daily Price Chg	-3.52%	-1.29%	0.39%	-1.29%	-4.66%	0.00%
1 Week Price Chg	1.64%	1.25%	-0.30%	-1.42%	-54.77%	NA%
4 Week Price Chg	1.95%	4.99%	2.38%	2.32%	2.60%	NA%
12 Week Price Chg	14.76%	2.73%	6.40%	10.60%	-66.38%	NA
52 Week Price Chg	-15.02%	-24.08%	22.97%	-13.36%	-90.41%	NA
20 Day Average Volume	2,484,402	128,000	1,610,101	956,588	16,503,941	0
(F1) EPS Est 1 week change	-3.85%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.76%	0.00%	0.00%	-2.37%	NA	0.00%
(F1) EPS Est 12 week change	10.49%	-2.94%	-0.50%	-24.61%	-64.71%	-138.89%
(Q1) EPS Est Mthly Chg	-4.30%	0.00%	0.00%	0.00%	NA	NA

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.

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