

National Oilwell (NOV)

\$24.18 (As of 02/07/20)

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:B

Value: C

Growth: A

Momentum: D

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 \$502 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.

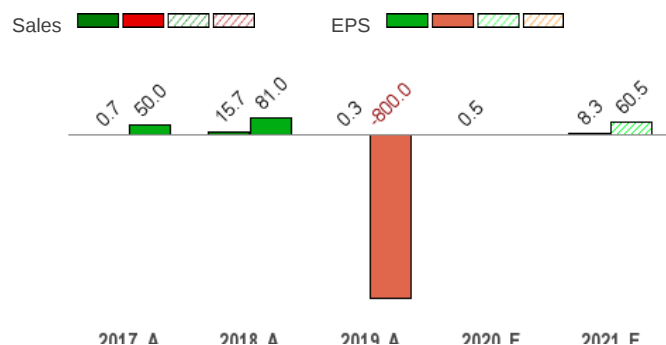
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.09 - \$18.05
20 Day Average Volume (sh)	2,675,998
Market Cap	\$9.3 B
YTD Price Change	-3.5%
Beta	1.32
Dividend / Div Yld	\$0.20 / 0.8%
Industry	Oil and Gas - Mechanical and Equipment
Zacks Industry Rank	Top 42% (106 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-18.8%
Last Sales Surprise	8.4%
EPS F1 Est- 4 week change	-2.3%
Expected Report Date	NA
Earnings ESP	-9.9%

P/E TTM	NA
P/E F1	31.8
PEG F1	2.1
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,227 E
2020	2,024 E	2,097 E	2,147 E	2,181 E	8,520 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	\$0.28 E	\$0.33 E	\$0.35 E	\$0.35 E	\$1.22 E
2020	\$0.14 E	\$0.19 E	\$0.23 E	\$0.25 E	\$0.76 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 02/07/2020. The reports text is as of 02/10/2020.

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.

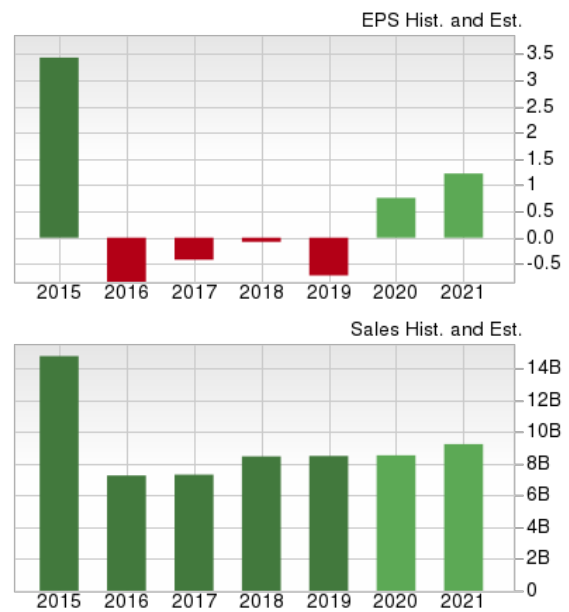
The company reached its current form following the March 2005 merger between National Oilwell and Varco International. National Oilwell Varco divides its operations into three major segments: Rig Technologies, Completion & Production Solutions, and Wellbore Technologies.

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 has experienced upturns in its Completions & Production Solutions order arrivals. In the fourth quarter of 2019, the company's order inflows totaled an impressive \$502 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 20.22%, 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 capital equipment sales.
- ▼ National Oilwell Varco's weaker-than-expected fourth earnings has been affected as North American drillers scale back their production growth plans, leaving less scope of work for the likes of National Oilwell Varco.
- ▼ 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 Q4 Earnings Lag, Revenues Beat Estimates

National Oilwell Varco, Inc. reported adjusted earnings of 13 cents per share in fourth-quarter 2019, missing the Zacks Consensus Estimate of 16 cents as North American drillers scale back their production growth plans, leaving less scope of work for the likes of National Oilwell Varco. However, the bottom line improved from the year-ago earnings of 3 cents. Particularly, better-than-expected revenue contribution from the Rig Technologies and the Wellbore Technologies segments led to this outperformance.

Rig Technologies' revenues of \$759 million surpassed the Zacks Consensus Estimate of \$681 million owing to improved land rig deliveries and enhancement of offshore equipment projects.

Further, revenues from the Wellbore Technologies segment came in at \$764 million, significantly above the Zacks Consensus Estimate of \$746 million. The unit's enhanced performance is attributable to recovery in the international and offshore market conditions and a better product mix.

Total revenues of \$2.28 billion outperformed the Zacks Consensus Estimate of \$2.10 billion but dipped 4.6% from the year-ago number of \$2.39 billion.

Segmental Performance

Rig Technologies: Revenues summed \$759 million compared with \$804 million in the year-ago quarter, reflecting a 6% decrease, thanks to lower equipment sales. However, the unit's adjusted EBITDA was \$112 million, up 10% from \$102 million in the year-earlier quarter. This gain is backed by the company's cost-cutting initiatives.

Wellbore Technologies: Segmental revenues fell 14% year over year to \$764 million as a result of reduced drilling operations in North America. Meanwhile, the unit's adjusted EBITDA of \$143 million decreased from the prior-year's \$155 million.

Completion & Production Solutions: Revenues at the segment were \$799 million, up 1.4% from \$788 million in the year-earlier quarter as offshore and international demand grew. The unit recorded adjusted EBITDA of \$96 million, 14% lower than the year-ago figure of \$112 million on steep decline in North American completion activities as customers continue to curtail spending.

Backlog

Capital equipment order backlog for Rig Technologies was \$3 billion as of Dec 31, 2019 including \$211 million worth of new orders.

Meanwhile, the Completion & Production Solutions' backlog for capital equipment orders totalled \$1.3 billion at the end of the fourth quarter. The figure included \$502 million worth of new orders.

Balance Sheet

As of Dec 31, 2019, the company had cash and cash equivalents of \$1.17 billion and long-term debt of \$1.99 billion. The debt-to-capitalization ratio was 20.22%.

The Path Ahead

Although the domestic oil producers are unlikely to increase their spending anytime soon, the company sees a stronger offshore and aftermarket business. In response to the changing market dynamics, National Oilwell Varco will likely sustain its disciplined approach to capital spending and improvement in its efficiency level.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	8.44%
EPS Surprise	-18.75%
Quarterly EPS	0.13
Annual EPS (TTM)	-0.72

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 139.01X trailing 12-month EV/EBITDA, which compares to 2.47X for the Zacks sub-industry, 4.69X for the Zacks sector and 11.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 139.01X and as low as 2.37X, with a 5-year median of 8.68X. 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	139.01	2.47	4.69	11.95
	5-Year High	139.01	25.98	10.26	12.85
	5-Year Low	2.37	2.35	4.58	8.49
	5-Year Median	8.68	7.88	6.53	10.66
P/S F12M	Current	1.09	0.71	0.81	3.53
	5-Year High	2.12	1.67	1.44	3.53
	5-Year Low	0.79	0.66	0.67	2.54
	5-Year Median	1.45	1.11	1	3
P/B TTM	Current	1.19	0.82	1.12	4.54
	5-Year High	1.33	1.03	1.6	4.56
	5-Year Low	0.56	0.51	1.03	2.85
	5-Year Median	0.92	0.79	1.32	3.62

As of 02/07/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Top Peers

Baker Hughes Company (BKR)	Neutral
NOW Inc. (DNO)	Neutral
Dril-Quip, Inc. (DRQ)	Neutral
Exterran Corporation (EXTN)	Neutral
Forum Energy Technologies, Inc. (FET)	Neutral
Matrix Service Company (MTRX)	Neutral
Oil States International, Inc. (OIS)	Neutral
Weatherford International PLC (WFTIQ)	Neutral

Industry Comparison Industry: Oil And Gas - Mechanical And And Equipment				Industry Peers		
	NOV Neutral	X Industry	S&P 500	DNO Neutral	DRQ Neutral	WFTIQ Neutral
VGM Score	B	-	-	A	F	-
Market Cap	9.33 B	115.99 M	24.00 B	1.12 B	1.53 B	M
# of Analysts	12	3	13	7	4	1
Dividend Yield	0.83%	0.00%	1.78%	0.00%	0.00%	%
Value Score	C	-	-	B	D	C
Cash/Price	0.17	0.18	0.04	0.10	0.28	NA
EV/EBITDA	12.74	4.37	14.07	10.49	-14.10	NA
PEG Ratio	2.04	1.70	2.04	NA	NA	NA
Price/Book (P/B)	1.15	0.88	3.28	0.88	1.40	NA
Price/Cash Flow (P/CF)	14.07	6.01	13.58	13.89	127.87	NA
P/E (F1)	30.63	29.29	18.86	29.29	38.76	NA
Price/Sales (P/S)	1.10	0.62	2.65	0.36	3.79	NA
Earnings Yield	3.14%	2.86%	5.30%	3.41%	2.58%	NA%
Debt/Equity	0.31	0.07	0.71	0.03	0.00	-1.47
Cash Flow (\$/share)	1.72	1.74	6.89	0.74	0.33	1.88
Growth Score	A	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	NA%	-38.67%	10.80%	NA	-63.75%	NA
Proj. EPS Growth (F1/F0)	205.32%	65.00%	7.23%	13.95%	1,576.92%	-52.67%
Curr. Cash Flow Growth	21.36%	14.60%	9.51%	280.95%	-76.73%	-640.40%
Hist. Cash Flow Growth (3-5 yrs)	-26.63%	-2.89%	8.55%	-13.37%	-43.16%	0.22%
Current Ratio	2.86	2.38	1.20	2.44	9.10	1.16
Debt/Capital	23.41%	13.68%	42.90%	2.76%	0.37%	NA
Net Margin	-71.88%	-17.71%	11.76%	1.89%	-19.96%	-68.93%
Return on Equity	-2.70%	-2.71%	16.98%	3.45%	-0.58%	NA
Sales/Assets	0.53	0.76	0.54	1.68	0.34	0.84
Proj. Sales Growth (F1/F0)	0.48%	1.16%	4.15%	-3.20%	12.57%	-2.35%
Momentum Score	D	-	-	C	F	-
Daily Price Chg	10.46%	-1.24%	-0.64%	-2.01%	-3.63%	0.00%
1 Week Price Chg	-5.80%	-4.12%	-2.60%	-3.47%	-9.71%	NA%
4 Week Price Chg	0.21%	-14.18%	0.72%	-9.21%	-9.91%	NA%
12 Week Price Chg	9.46%	-9.20%	4.69%	-14.37%	-4.43%	NA
52 Week Price Chg	-15.57%	-39.46%	16.01%	-23.11%	18.45%	NA
20 Day Average Volume	2,675,998	90,350	1,961,054	869,933	236,363	0
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.72%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.26%	0.00%	-0.00%	-2.78%	-2.18%	-166.28%
(F1) EPS Est 12 week change	-4.57%	-3.57%	-0.16%	-9.09%	-0.91%	-201.32%
(Q1) EPS Est Mthly Chg	-5.61%	-4.91%	0.00%	-12.50%	-7.87%	-215.39%

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	D
VGM Score	B

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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