

Patterson-UTI Energy (PTEN)

\$7.33 (As of 02/10/20)

Price Target (6-12 Months): **\$9.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

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

Patterson-UTI's business is set to benefit from its proprietary design and technologically advanced 'Apex' rigs, which are better suited for the new demands of the exploration business thereby commanding higher dayrates and utilization than rigs from other land drillers. Further, the strategic acquisitions of Seventy-Seven and MS Energy have not only bolstered Patterson-UTI's scale, customer base and growth prospects. However, the company's string of loss-making quarters continues. This combined with the weakness in pressure pumping business could spell troubling times ahead. Further, Patterson-UTI's contract drilling operation has been experiencing rig cancellations from customers over the sharp drop in oil prices. Hence, Patterson-UTI warrants a cautious stance from the investors at the moment.

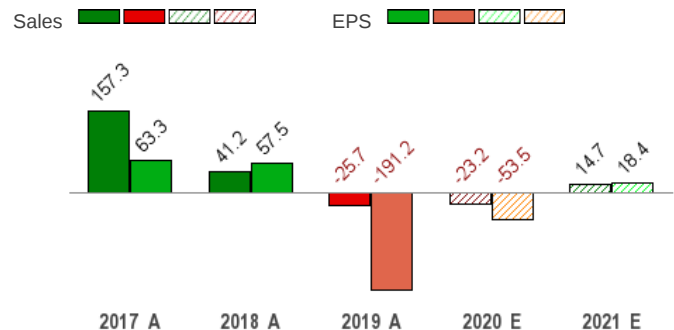
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.27 - \$6.87
20 Day Average Volume (sh)	4,241,523
Market Cap	\$1.4 B
YTD Price Change	-30.2%
Beta	1.79
Dividend / Div Yld	\$0.16 / 2.2%
Industry	Oil and Gas - Drilling
Zacks Industry Rank	Top 38% (98 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-7.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	04/23/2020
Earnings ESP	-3.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	560 E	575 E	580 E	551 E	2,177 E
2020	447 E	471 E	507 E	499 E	1,898 E
2019	704 A	676 A	598 A	492 A	2,471 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.28 E	-\$0.24 E	-\$0.20 E	-\$0.21 E	-\$1.24 E
2020	-\$0.41 E	-\$0.36 E	-\$0.34 E	-\$0.34 E	-\$1.52 E
2019	-\$0.14 A	-\$0.17 A	-\$0.27 A	-\$0.44 A	-\$0.99 A

*Quarterly figures may not add up to annual.

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

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/10/2020. The reports text is as of 02/11/2020.

Overview

Formed in 1978, Houston, TX-based Patterson-UTI Energy, Inc. is an oilfield services company. Patterson-UTI, in its current form, came into existence following a merger between Patterson Energy, Inc. and UTI Energy Corporation. It is one of the largest onshore contract drillers in the United States and has a large fleet of pressure pumping equipment.

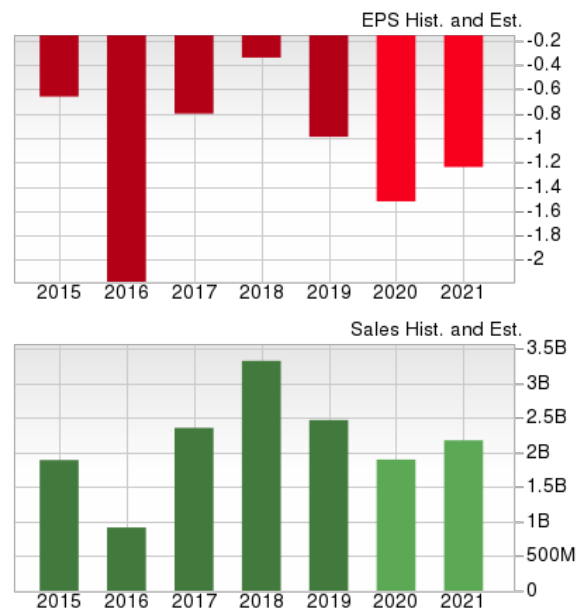
Patterson-UTI operates primarily in four segments: Contract Drilling (contributed 53% of the company's 2019 revenue), Pressure Pumping (35%), Directional Drilling (8%), and Others 4%).

Contract Drilling: The company is a major supplier of onshore drilling rigs on a contractual basis to explore for and develop oil and gas. As of Dec 31, 2018, the company had a drilling fleet of 252 marketed land-based rigs operating primarily in the energy producing regions of North America. All of these drilling rigs are electric rigs, with maximum depth capabilities ranging from approximately 13,200 feet to 25,000 feet. Patterson-UTI's main focus areas are in continental United States and western Canada. The company's contract drilling backlog as of year-end 2018 was \$770 million. This was 42% higher compared to its backlog as on Dec 31, 2017.

Pressure Pumping: Patterson-UTI also provides pressure pumping services - an umbrella term used to describe a number of vital services performed on new and existing wells. The company's pressure-pumping services include well stimulation and cementing for the completion of new wells, as well as remedial work on existing wells. These services, with a total capacity of 1.6 million horsepower, are focused primarily in Texas and the Mid-Continent and Appalachian regions.

Directional Drilling: This is Patterson-UTI's newest segment, which came into being following the acquisition of MS Directional in 2017. Through this unit, the company provides directional drilling, downhole performance motors, motor rentals, directional surveying, measurement-while-drilling, wireline steering tools and services.

Other: This unit is engaged in providing technology and oilfield rentals to exploration and production companies in the United States.



Reasons To Buy:

- ▲ Patterson-UTI Energy is one of the largest North American land drilling contractors, having a large, high-quality fleet of drilling rigs. The company's technologically advanced 'Apex' rigs are the key to its success. Patterson-UTI's proprietary design makes the rigs move faster than conventional rigs, drill quicker and more efficiently than conventional rigs, and allows for a safer operating environment. As such, these rigs are better suited for the new demands of the exploration business and, therefore, command higher dayrates and utilization than rigs from other land drillers.
- ▲ Patterson-UTI's acquisition of Seventy Seven Energy, given the compelling strategic rationale of the transaction, seems like a positive move. Apart from bolstering its scale and customer base, the purchase will help Patterson-UTI enhance its geographic footprint to most active basins in the United States. The subsequent buyout of MS Energy has further strengthened the portfolio of Patterson-UTI, thus strengthening its future revenue growth opportunities.
- ▲ Patterson-UTI is dedicated toward enhancing shareholders' wealth through share repurchases and dividend payments. The company repurchased 22.6 million of its shares for \$250 million during the full-year 2019 and shelled out \$33 million as dividends.

The strategic acquisition of MS Energy and Seventy Seven has not only bolstered Patterson-UTI's scale and customer base but also provided an impetus to the company's earnings and revenues.

Reasons To Sell:

- ▼ Over the past few quarters, Patterson-UTI's results have suffered due to sluggish pressure pumping operations, where pricing has become unreasonably low due to weak hydraulic fracturing activity. What's even worse is that the company sees the unit to be negatively impacted in the March quarter due to the abrupt stoppage of operations by a major client.
- ▼ Despite some improvement, management stated that drilling and completion activities are expected to remain depressed with upstream energy companies choosing to be conservative with their investment budgets.
- ▼ Patterson-UTI's balance sheet appears to be quite fragile with the current cash position of \$174.2 million weakening from the \$245 million a year ago.

Weakness in the pressure pumping market is a concern for Patterson-UTI.

Last Earnings Report

Patterson-UTI Reports Wider Q4 Loss on North American Weakness

Patterson-UTI Energy reported net loss per share of 44 cents, wider than the Zacks Consensus Estimate of 41 cents and the year-ago loss of 4 cents. The underperformance reflects weak North American drilling activity.

However, revenues of \$492.3 million beat the Zacks Consensus Estimate of \$487 million on higher-than-expected sales from the Pressure Pumping unit. To be precise, revenues from the segment came in at \$161.4 million, above the Zacks Consensus Estimate of \$151 million.

Patterson-UTI's sales, though declined 38.1% from the year-ago quarter.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	1.10%
EPS Surprise	-7.32%
Quarterly EPS	-0.44
Annual EPS (TTM)	-1.02

Segmental Performance

Contract Drilling: This segment's revenues totaled \$270.8 million, down 30.1% year over year. Meanwhile, the unit lost \$19.5 million in the fourth quarter, compared to a profit of \$26.9 million in the year-earlier quarter.

While average rig revenues per operating day increased to \$23,980 from \$22,970 in the fourth quarter of 2018, it was more than offset by a 14.4% rise in average daily rig operating costs. Consequently, average rig margin per day deteriorated 10% year over year to \$8,450.

The unit was also plagued by fall in both the operating days (from 16,869 to 11,291) and the number of rigs operational (from 183 to 123).

Pressure Pumping: Revenues of \$161.4 million dropped 49.5% from the year-ago sales of \$319.7 million as activity fell. However, the segment's operating loss narrowed to \$26.6 million from \$121.9 million in the fourth quarter of 2018 on lower operating cost and the absence of impairment charges.

Directional Drilling: The unit's revenues totaled \$38.6 million, down 31.6% year over year due to lower rig count. Nevertheless, the segment managed to restrict its operating loss to \$9.3 million as against the much wider \$95.9 million loss in the corresponding quarter of 2018. A year ago, results were largely hurt by an impairment charge of \$89.7 million.

Other Operations: Revenues came in at \$21.5 million, 33.6% below the year-ago quarter figure of \$32.3 million. However, the unit incurred a narrower quarterly loss of \$3 million, as against the loss of \$4.5 million recorded in year-ago quarter. The improvement was mainly on account of lower costs.

Capital Expenditure & Financial Position

During the quarter, Patterson-UTI spent approximately \$64.2 million on capital programs (as against \$160.9 million in the fourth quarter of 2018). As of Dec 31, 2020, Patterson-UTI had \$174.2 million in cash and cash equivalents and \$966.5 million in long-term debt.

The company also informed that it repurchased 22.6 million of its shares for \$250 million during the full-year 2019 and shelled out \$33 million as dividends.

Guidance & Outlook

Patterson-UTI management said that its rig count bottomed out in the fourth quarter and will go up slightly in the early part of 2020, primarily driven by the Permian Basin.

For the first quarter of 2020, the company forecasts \$23,200-\$23,500 in average revenue per operating day, while average rig operating cost per day is pegged at around \$15,000. The onshore driller expects an average of 77 rigs to be operational under term contracts during the period and 58 for the full-year 2020.

In pressure pumping, Patterson-UTI sees the unit to be negatively impacted in the March quarter due to the abrupt stoppage of operations by a major client. However, Patterson-UTI sees things getting better during the later part of the year, riding on the company's proven steps.

Meanwhile, drilling and completion activities are expected to be under pressure for the time being with upstream energy companies choosing to remain conservative with their investment budgets. As such, Patterson-UTI forecasts full-year capital expenditure to come in approximately \$250 million, 28% below the 2019 spending of \$348 million.

Recent News

Patterson-UTI Reports January Drilling Activity

On **Feb 5**, Patterson-UTI declared that its January 2020 drill rig count averaged at 123.

Valuation

Patterson-UTI shares are down 45.6% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and sector are down 38.5% and 15.8%, respectively.

The S&P 500 index is up 22.8% in the past year.

The stock is currently trading at 2.21X trailing 12-month EV/EBITDA, which compares to 7.94X for the Zacks sub-industry, 4.71X for the Zacks sector and 11.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.29X and as low as 2.16X, with a 5-year median of 5.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$9 price target reflects 0.86X F12M sales.

The table below shows summary valuation data for PTEN

Valuation Multiples - PTEN					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	2.21	7.94	4.71	11.36
	5-Year High	28.29	13.01	10.27	12.85
	5-Year Low	2.16	4.07	4.58	8.47
	5-Year Median	5.91	8.14	6.54	10.7
P/S F12M	Current	0.7	0.81	0.8	3.55
	5-Year High	4.77	2.48	1.45	3.55
	5-Year Low	0.61	0.79	0.67	2.54
	5-Year Median	1.31	1.48	0.99	3
P/B TTM	Current	0.48	0.36	1.11	4.32
	5-Year High	2.06	0.91	1.6	4.42
	5-Year Low	0.47	0.32	1.03	2.85
	5-Year Median	0.99	0.58	1.32	3.62

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Top 38% (98 out of 255)



Top Peers

Diamond Offshore Drilling, Inc. (DO)	Neutral
Helmerich & Payne, Inc. (HP)	Neutral
Nabors Industries Ltd. (NBR)	Neutral
Noble Corporation (NE)	Neutral
Precision Drilling Corporation (PDS)	Neutral
Parker Drilling Company (PKD)	Neutral
Transocean Ltd. (RIG)	Neutral
Ensco plc (VAL)	Neutral

Industry Comparison Industry: Oil And Gas - Drilling				Industry Peers		
	PTEN Neutral	X Industry	S&P 500	DO Neutral	HP Neutral	NBR Neutral
VGM Score	A	-	-	B	B	A
Market Cap	1.43 B	333.69 M	24.17 B	548.02 M	4.74 B	777.71 M
# of Analysts	11	3	13	6	4	5
Dividend Yield	2.18%	0.00%	1.77%	0.00%	6.52%	1.87%
Value Score	A	-	-	A	C	B
Cash/Price	0.11	0.48	0.04	0.35	0.09	0.53
EV/EBITDA	2.77	3.82	13.89	10.13	8.93	6.36
PEG Ratio	NA	15.97	2.05	NA	15.97	NA
Price/Book (P/B)	0.48	0.31	3.27	0.17	1.19	0.33
Price/Cash Flow (P/CF)	1.74	3.16	13.60	3.16	6.28	1.52
P/E (F1)	NA	16.06	19.00	NA	88.47	NA
Price/Sales (P/S)	0.58	0.37	2.66	0.56	1.78	0.25
Earnings Yield	-20.74%	-20.74%	5.26%	-57.54%	1.12%	-41.59%
Debt/Equity	0.34	0.76	0.71	0.60	0.12	1.50
Cash Flow (\$/share)	4.22	0.64	6.89	1.26	6.94	1.41
Growth Score	A	-	-	F	B	A
Hist. EPS Growth (3-5 yrs)	NA%	-34.19%	10.85%	-37.63%	-17.65%	NA
Proj. EPS Growth (F1/F0)	-53.54%	14.24%	7.22%	10.13%	-71.86%	38.82%
Curr. Cash Flow Growth	-22.04%	-21.38%	8.88%	-62.45%	25.65%	25.23%
Hist. Cash Flow Growth (3-5 yrs)	-2.56%	-16.19%	8.36%	-30.31%	-8.86%	-18.32%
Current Ratio	1.54	1.85	1.22	1.84	2.75	2.02
Debt/Capital	25.18%	43.64%	42.90%	37.41%	10.76%	60.04%
Net Margin	-17.23%	-18.63%	11.81%	-36.43%	-0.82%	-20.02%
Return on Equity	-6.34%	-7.55%	16.98%	-10.72%	4.29%	-16.80%
Sales/Assets	0.49	0.40	0.54	0.16	0.45	0.41
Proj. Sales Growth (F1/F0)	-23.17%	-1.41%	4.06%	-1.41%	-11.60%	-0.90%
Momentum Score	F	-	-	A	B	F
Daily Price Chg	-0.68%	-0.71%	0.45%	-9.34%	2.16%	-1.38%
1 Week Price Chg	-7.05%	-5.18%	2.47%	-5.18%	5.18%	4.83%
4 Week Price Chg	-27.35%	-21.95%	0.95%	-39.88%	-5.79%	-28.90%
12 Week Price Chg	-14.47%	-14.47%	5.05%	-26.84%	12.18%	11.46%
52 Week Price Chg	-43.87%	-48.42%	16.18%	-56.97%	-21.75%	-22.74%
20 Day Average Volume	4,241,523	261,618	1,999,386	3,204,876	2,634,555	7,342,504
(F1) EPS Est 1 week change	-5.36%	0.00%	0.00%	0.00%	36.17%	0.00%
(F1) EPS Est 4 week change	-8.43%	0.00%	0.00%	-0.51%	29.60%	-2.16%
(F1) EPS Est 12 week change	-18.29%	-1.59%	-0.18%	-4.56%	-13.60%	-11.19%
(Q1) EPS Est Mthly Chg	-10.48%	-0.86%	0.00%	-1.72%	17.54%	-1.83%

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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