

Patterson-UTI Energy (PTEN)

\$4.40 (As of 08/10/20)

Price Target (6-12 Months): **\$5.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: C

Summary

Shares of Patterson-UTI have fallen by 58.1% this year but it has netted 29.4% gains in the past 3 months, reflecting a turnaround. The company recently came out with a robust Q2 performance in a tough market. The positive surprises on both lines reflected better-than-expected results from the key Contract Drilling business. Lower costs helped prop up segment margins even as demand remained significantly eroded. In particular, Patterson-UTI's ability to manage expenses offset the free fall in both the operating days and the number of rigs operational. While the coronavirus-related headwinds are unlikely to subside anytime soon, the company's cost control efforts should support margins. A comfortable debt maturity profile and ample liquidity are other positives in the Patterson-UTI story. Hence, the stock warrants a cautious stance.

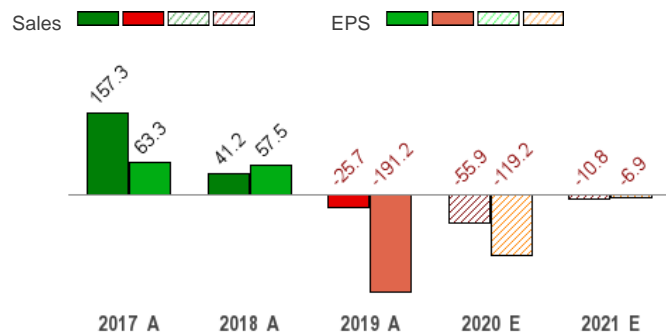
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$11.19 - \$1.61
20 Day Average Volume (sh)	5,495,029
Market Cap	\$824.6 M
YTD Price Change	-58.1%
Beta	2.70
Dividend / Div Yld	\$0.08 / 1.8%
Industry	Oil and Gas - Drilling
Zacks Industry Rank	Bottom 22% (198 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	8.0%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	10/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	209 E	247 E	273 E	267 E	972 E
2020	446 A	250 A	196 E	194 E	1,090 E
2019	704 A	676 A	598 A	492 A	2,471 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.62 E	-\$0.60 E	-\$0.57 E	-\$0.55 E	-\$2.32 E
2020	-\$0.45 A	-\$0.56 A	-\$0.62 E	-\$0.62 E	-\$2.17 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	0.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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.

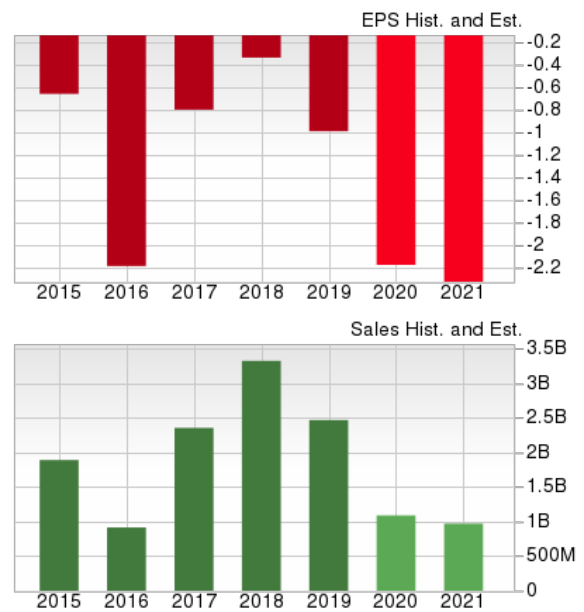
Patterson-UTI operates primarily in four segments: Contract Drilling (contributed 53% of the company's 2019 revenue), Pressure Pumping (35%), Directional Drilling (8%), and Others 4%).

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-UTL 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-UTL'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-UTL's largest unit – Contract Drilling - produced a resilient performance in the second quarter as lower costs helped prop up margins. In particular, average rig cost per day in the segment fell to \$11,690 in the quarter from \$14,030 a year ago. Consequently, average rig margin per day improved 10.9% year over year to \$11,280.
- ▲ Patterson-UTL's total debt is around \$1 billion. Importantly, the company's debt-to-capitalization as of the end of the first quarter was 29.6%, quite conservative versus 45.1% for the sub industry to which it belongs. Apart from low leverage for its industry, Patterson-UTL has ample liquidity with cash and cash equivalents of \$246.8 million and \$600 million available under the revolving credit facility. Also, the company has a comfortable debt maturity profile with no major debt outstanding until 2028.

Patterson-UTL's largest unit – Contract Drilling - produced a resilient performance in the second quarter as lower costs helped prop up margins.

Reasons To Sell:

- ▼ The slump in oil prices has pushed drilling activity lower by introducing tremendous uncertainty around the exploration and production ('E&P') spending outlook. As supplier of drilling rigs to the E&P sector, the sentiment toward firms like Patterson-UTI is rather pessimistic. In fact, this shift in customer strategy has resulted in declining demand for its oilfield services and put pressure on pricing.
- ▼ 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. During the most recent quarter, revenues of \$59.5 million dropped 76.3% from the year-ago sales of \$251 million as activity nosedived. Moreover, the segment's operating loss widened to \$68.6 million from \$14.4 million in the second quarter of 2019.
- ▼ Earlier this year, the board lowered the company's regular quarterly dividend by 50% to 2 cents per share, giving a jolt to income investors. Further, Patterson-UTI, which halted share repurchases in the first quarter, is not planning any more buybacks currently.

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

Last Earnings Report

Patterson-UTL Reports Narrower Q2 Loss on Cost Control

Patterson-UTL Energy reported adjusted net loss per share of 56 cents, narrower than the Zacks Consensus Estimate of 58 cents. The outperformance reflects better than expected results from the contract drilling segment as lower costs helped prop up margins. In particular, average rig cost per day in its largest unit fell to \$11,690 in the third quarter from \$14,030 a year ago.

However, the bottom line loss was wider than the year-earlier quarter's loss of 17 cents due to a free fall in U.S. drilling activity.

Revenues of \$250.4 million beat the Zacks Consensus Estimate of \$232 million on higher-than-expected sales from the contract drilling business. To be precise, revenues from the segment came in at \$171.1 million, above the Zacks Consensus Estimate of \$160 million.

Patterson-UTL's sales though declined 62.9% from the year-ago quarter.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	7.99%
EPS Surprise	3.45%
Quarterly EPS	-0.56
Annual EPS (TTM)	-1.72

Segmental Performance

Contract Drilling: This segment's revenues totaled \$171.1 million, down 50.8% year over year. Meanwhile, the unit lost \$30.7 million in the second quarter, compared to a profit of \$16.5 million in the year-earlier quarter - plagued by fall in both the operating days (from 14,385 to 7,450) and the number of rigs operational (from 158 to 82).

On a positive note, average rig margin per day improved 10.9% year over year to \$11,280. While average rig revenues per operating day decreased to \$22,970 from \$24,200 in the second quarter of 2019, it was more than offset by a 16.7% fall in average daily rig operating costs.

Pressure Pumping: Revenues of \$59.5 million dropped 76.3% from the year-ago sales of \$251 million as activity nosedived. Moreover, the segment's operating loss widened to \$68.6 million from \$14.4 million in the second quarter of 2019.

Directional Drilling: The unit's revenues totaled \$11.7 million, down 76.6% year over year due to significantly lower rig count. As a result, the segment saw its operating loss worsen to \$14.4 million as against the much narrower \$5.3 million loss in the corresponding quarter of 2019.

Other Operations: Revenues came in at \$8 million, 69.8% below the year-ago quarter figure of \$26.4 million. Additionally, the unit incurred a wider quarterly loss of \$10.4 million, as against the loss of \$7.3 million recorded in year-ago quarter. The deterioration was mainly on account of curtailed operation.

Capital Expenditure & Financial Position

During the quarter, Patterson-UTL spent approximately \$49.7 million on capital programs (as against \$96.9 million in the second quarter of 2019). As of Jun 30, 2020, Patterson-UTL had \$246.8 million in cash and cash equivalents and \$967.1 million in long-term debt.

Guidance & Outlook

Patterson-UTL management said that its rig count has remained fairly steady of late and is unlikely to go down in the upcoming months.

For the third quarter of 2020, the company forecasts approximately \$8,600 in average margin per operating day for the contract drilling unit. The onshore driller expects an average of 51 rigs to be operational under term contracts during the period and 38 for the next four quarters.

In the pressure pumping division, Patterson-UTL sees a slight uptick in fracturing jobs. This should lead to a 10% sequential improvement in revenues with expectations of positive cash flow.

Moving on to the directional drilling unit, the company projects revenues of roughly \$10 million and gross margin of approximately breakeven.

Finally, Patterson-UTL, which closed Canadian drilling operations during the quarter, still forecasts full-year capital expenditure to come in at approximately \$140 million, 60% below the 2019 spending of \$348 million.

Valuation

Patterson-UTI shares are down 58.1% in the year-to-date period and 50.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 58.9% and 35.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 48.6% and 31.3%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and is up 16.4% in the past year.

The stock is currently trading at 1.72X trailing 12-month EV/EBITDA, which compares to 10.4X for the Zacks sub-industry, 4.66X for the Zacks sector and 12.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.14X and as low as 1.13X, with a 5-year median of 5.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$5.25 price target reflects 0.96X 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	1.72	10.4	4.66	12.62
	5-Year High	29.14	15.3	10.47	12.84
	5-Year Low	1.13	4	3.04	8.24
	5-Year Median	5.72	9.12	6.49	10.9
P/S F12M	Current	0.81	0.79	0.71	3.66
	5-Year High	4.77	3.43	1.46	3.66
	5-Year Low	0.21	0.37	0.59	2.53
	5-Year Median	1.21	1.9	0.99	3.05
P/B TTM	Current	0.37	0.23	0.91	4.67
	5-Year High	2.06	0.89	1.54	4.67
	5-Year Low	0.13	0.11	0.52	2.83
	5-Year Median	0.96	0.61	1.31	3.74

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (198 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
HelmerichPayne, Inc. (HP)	Neutral	3
Independence Contract Drilling, Inc. (ICD)	Neutral	3
Nabors Industries Ltd. (NBR)	Neutral	3
Noble Corporation (NE)	Neutral	4
Precision Drilling Corporation (PDS)	Neutral	3
Transocean Ltd. (RIG)	Neutral	3
SAIPEM SPA SAN (SAPMF)	Neutral	4
Ensco plc (VAL)	Neutral	4

Industry Comparison Industry: Oil And Gas - Drilling				Industry Peers		
	PTEN	X Industry	S&P 500	HP	ICD	NBR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	A	A
Market Cap	824.59 M	124.03 M	23.56 B	2.09 B	11.60 M	454.43 M
# of Analysts	7	1	14	4	1	4
Dividend Yield	1.82%	0.00%	1.71%	14.62%	0.00%	0.00%
Value Score	A	-	-	B	A	A
Cash/Price	0.32	1.14	0.07	0.25	1.44	1.14
EV/EBITDA	2.76	2.76	13.39	3.85	-426.04	6.19
PEG Ratio	NA	NA	2.92	NA	NA	NA
Price/Book (P/B)	0.37	0.16	3.18	0.61	0.04	0.26
Price/Cash Flow (P/CF)	1.04	1.04	12.69	2.80	0.41	0.82
P/E (F1)	NA	9.15	22.16	NA	NA	NA
Price/Sales (P/S)	0.46	0.19	2.55	0.94	0.08	0.17
Earnings Yield	-49.32%	-43.15%	4.33%	-20.34%	-497.70%	-166.67%
Debt/Equity	0.44	0.58	0.77	0.14	0.46	2.17
Cash Flow (\$/share)	4.23	0.38	6.94	6.94	7.37	66.31
Growth Score	C	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	NA%	-23.30%	10.41%	-3.35%	NA	NA
Proj. EPS Growth (F1/F0)	-119.19%	-38.78%	-6.51%	-325.57%	-215.21%	14.39%
Curr. Cash Flow Growth	-21.95%	-21.95%	5.26%	25.65%	20.84%	-4.60%
Hist. Cash Flow Growth (3-5 yrs)	-2.53%	-14.88%	8.55%	-8.86%	-8.07%	-20.25%
Current Ratio	1.90	1.90	1.34	4.09	1.59	2.20
Debt/Capital	30.77%	36.88%	44.59%	12.39%	31.70%	68.49%
Net Margin	-52.19%	-53.13%	10.13%	-17.81%	-55.84%	-33.84%
Return on Equity	-12.67%	-13.37%	14.59%	0.61%	-11.38%	-21.14%
Sales/Assets	0.43	0.23	0.51	0.41	0.30	0.41
Proj. Sales Growth (F1/F0)	-55.88%	-0.52%	-1.54%	-37.67%	-57.02%	-29.54%
Momentum Score	C	-	-	C	A	F
Daily Price Chg	6.80%	0.00%	0.91%	5.31%	-4.10%	5.14%
1 Week Price Chg	6.32%	0.86%	2.30%	3.42%	-5.37%	21.53%
4 Week Price Chg	34.97%	7.34%	8.54%	8.37%	6.67%	110.86%
12 Week Price Chg	16.09%	2.58%	13.68%	0.83%	-53.73%	162.29%
52 Week Price Chg	-50.67%	-52.96%	3.71%	-52.96%	-86.55%	-50.28%
20 Day Average Volume	5,495,029	215,305	2,015,804	1,958,536	443,118	817,388
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	11.39%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.20%	0.00%	1.67%	23.25%	0.00%	-0.13%
(F1) EPS Est 12 week change	1.43%	1.43%	2.27%	16.19%	0.26%	3.53%
(Q1) EPS Est Mthly Chg	4.72%	1.56%	0.67%	-4.49%	0.00%	7.25%

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	A
Growth Score	C
Momentum Score	C
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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