

## Patterson-UTI Energy (PTEN)

**\$9.95** (As of 01/17/20)

Price Target (6-12 Months): **\$12.00**

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 an underperforming 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.

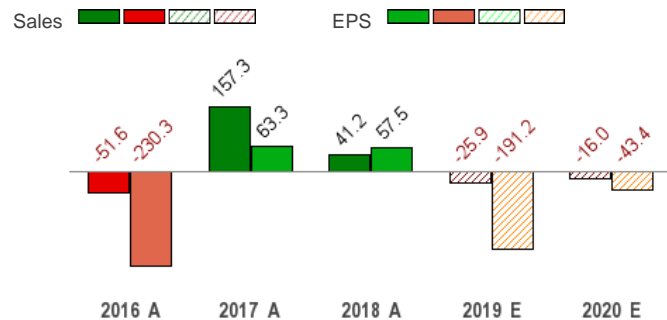
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$16.27 - \$7.67
20 Day Average Volume (sh)	2,718,596
Market Cap	\$1.9 B
YTD Price Change	-5.2%
Beta	1.69
Dividend / Div Yld	\$0.16 / 1.6%
Industry	<a href="#">Oil and Gas - Drilling</a>
Zacks Industry Rank	Top 45% (114 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-8.5%
Expected Report Date	02/06/2020
Earnings ESP	2.5%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	487 E	505 E	521 E	514 E	2,070 E
2019	704 A	676 A	598 A	487 E	2,464 E
2018	809 A	854 A	867 A	796 A	3,327 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.39 E	-\$0.34 E	-\$0.32 E	-\$0.33 E	-\$1.42 E
2019	-\$0.14 A	-\$0.17 A	-\$0.27 A	-\$0.41 E	-\$0.99 E
2018	-\$0.16 A	-\$0.05 A	-\$0.10 A	-\$0.04 A	-\$0.34 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 01/17/2020. The reports text is as of 01/20/2020.

## 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.

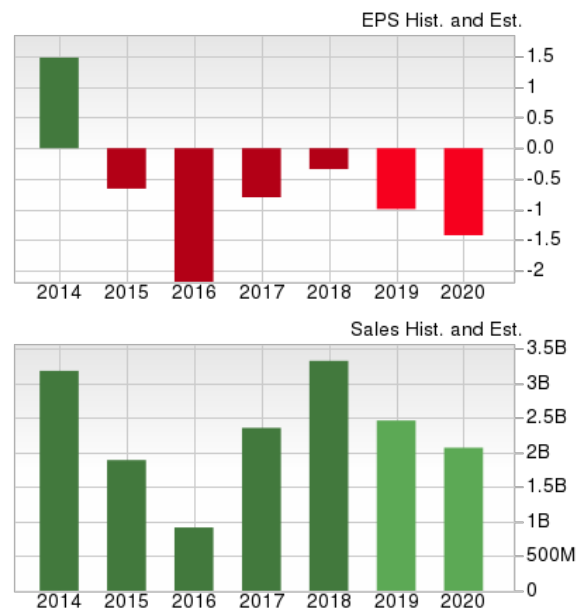
Patterson-UTI operates primarily in four segments: Contract Drilling (contributed 43% of the company's 2018 revenue), Pressure Pumping (47%), Directional Drilling (6%), and Others 4%).

**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.



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## 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. Over the first three quarters of 2019, Patterson-UTI repurchased shares worth \$225 million and the company's remaining buyback authorization is \$175 million.

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.

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### Reasons To Sell:

- ▼ Patterson-UTI's third-quarter revenue was 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 likely to have persisted through 2019.
- ▼ Driven by the current market conditions, management stated that drilling and completion activities are expected to be persistently weak 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 \$164.8 million weakening from the \$214 million a year ago.

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

## Last Earnings Report

### Patterson-UTI Q3 Earnings Beat, Sales Miss Estimates

Patterson-UTI Energy, Inc. reported adjusted net loss per share of 27 cents in third-quarter 2019, narrower than the Zacks Consensus Estimate of a loss of 29 cents. The better-than-expected numbers reflect lower capital costs.

However, the bottom line worsened almost 170% from the year-ago loss of 10 cents due to lower completion activity that impacted the Pressure Pumping unit.

Revenues of \$598 million also missed the Zacks Consensus Estimate of \$607 million and declined 31.02% from the year-ago quarter of \$867 million as well.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-1.30%
EPS Surprise	6.90%
Quarterly EPS	-0.27
Annual EPS (TTM)	-0.62

### Segmental Performance

**Contract Drilling:** Revenues of \$317 million essentially dropped 13.2% year over year and fell below the Zacks Consensus Estimate of \$340 million. Meanwhile, the segment incurred an operating loss of \$169 million, wider than the loss of \$42 million in the year-earlier quarter.

Average rig revenues per operating day increased to \$24,240 from \$22,280 in the third quarter of 2018, partly offset by an 8.8% rise in average daily rig operating costs. Consequently, average rig margin per day improved 15.6% year over year to \$9790.

Although the unit was plagued by a fall in both the operating days (from 16,394 to 13,081) and the number of rigs operational (from 178 to 142), it benefited from the inclusion of early termination revenues.

**Pressure Pumping:** Revenues of \$209 million plunged 50.5% from the year-ago sales of \$422 million and also missed the Zacks Consensus Estimate of \$257 million. Moreover, the segment incurred an operating loss of \$42 million, wider than the loss of \$1.4 million in the prior-year quarter. Reduced completion activity and pricing pressure caused this deterioration.

**Directional Drilling:** Revenues of \$47 million were down 8.9% year over year and also lagged the Zacks Consensus Estimate of \$50 million. Moreover, the segment's operating loss of \$32 million deteriorated from the year-ago loss of \$8.9 million as operating costs increased.

**Other Operations:** Revenues came in at \$25.7 million, down 11.3% from the year-ago quarter of \$29 million. Further, the unit's quarterly loss of \$39.2 million was higher than the \$4.8 million loss in the year-ago quarter. This downside was mainly on account of higher SG&A costs of 2.2 million.

### Capital Expenditure & Financial Position

During the quarter, Patterson-UTI spent approximately \$68 million on capital programs (compared with \$96.9 million in the second quarter). As of Sep 30, 2019, Patterson-UTI had \$164.8 million in cash and cash equivalents and \$970 million in long-term debt. The company also informed that it repurchased shares worth \$75 million and shelled out more than \$7.8 million as dividends in the period.

### Guidance & Outlook

Driven by the current market conditions, management stated that drilling and completion activities are expected to be persistently weak with upstream energy companies choosing to be conservative with their investment budgets.

Patterson-UTI sees an average rig count of around 126 in the fourth quarter. The contract drilling unit anticipates average rig revenue per day to decrease due to lower early termination revenues.

In pressure pumping, Patterson-UTI expects a slowdown in fourth-quarter completion activity, thanks to continued drilling weakness. Directional Drilling revenues are expected to be roughly \$39 million with gross profit margin of \$8 million.

Finally, the company forecasts full-year capital expenditure to be approximately \$350 million, indicating a 12.5% decline from its second-quarter projection of \$400 million and a 24.7% fall from the original annual budget of \$465 million.

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## Recent News

### Patterson-UTI Reports December Drilling Activity

On **Jan 6**, Patterson-UTI declared that its December 2019 drill rig count averaged at 122 while its fourth quarter average drilling rig counts were 123.

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## Valuation

Patterson-UTI shares are down 21.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 25% and 3.6%, respectively.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 2.54X trailing 12-month EV/EBITDA, which compares to 8.56X for the Zacks sub-industry, 5.06X for the Zacks sector and 12.12X 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 5.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 1.12X 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	2.54	8.56	5.06	12.12
	5-Year High	28.29	13.01	10.22	12.86
	5-Year Low	2.16	4.07	4.56	8.48
	5-Year Median	5.77	8.13	6.49	10.67
P/S F12M	Current	0.93	1.01	0.89	3.57
	5-Year High	4.77	2.48	1.44	3.57
	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	0.66	0.44	1.22	4.55
	5-Year High	2.06	0.91	1.59	4.55
	5-Year Low	0.49	0.32	1.02	2.85
	5-Year Median	0.99	0.59	1.31	3.61

As of 01/17/2020

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## Industry Analysis Zacks Industry Rank: Top 45% (114 out of 254)



## 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
<b>VGM Score</b>	<b>A</b>	-	-	<b>D</b>	<b>C</b>	<b>A</b>
Market Cap	1.94 B	383.88 M	24.65 B	879.86 M	4.89 B	1.06 B
# of Analysts	7	5	13	5	10	5
Dividend Yield	1.61%	0.00%	1.73%	0.00%	6.29%	1.37%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>D</b>	<b>B</b>
Cash/Price	0.08	0.36	0.04	0.23	0.08	0.38
EV/EBITDA	3.40	4.11	14.11	11.58	9.23	6.82
PEG Ratio	NA	9.36	2.08	NA	9.36	NA
Price/Book (P/B)	0.66	0.35	3.39	0.27	1.23	0.45
Price/Cash Flow (P/CF)	2.05	3.43	13.81	5.08	6.51	2.06
P/E (F1)	NA	18.13	19.19	NA	150.94	NA
Price/Sales (P/S)	0.70	0.45	2.69	0.94	1.75	0.34
Earnings Yield	-14.27%	-14.27%	5.21%	-35.84%	0.66%	-30.24%
Debt/Equity	0.34	0.76	0.72	0.60	0.12	1.50
Cash Flow (\$/share)	4.85	0.62	6.94	1.26	6.94	1.41
<b>Growth Score</b>	<b>A</b>	-	-	<b>F</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	NA%	-34.19%	10.56%	-37.63%	-27.87%	NA
Proj. EPS Growth (F1/F0)	-43.02%	14.24%	7.57%	20.04%	-82.91%	39.50%
Curr. Cash Flow Growth	68.92%	-20.32%	14.73%	-62.45%	25.65%	25.23%
Hist. Cash Flow Growth (3-5 yrs)	5.41%	-16.19%	9.00%	-30.31%	-8.86%	-18.32%
Current Ratio	1.54	1.85	1.24	1.84	2.72	2.02
Debt/Capital	25.18%	43.64%	42.99%	37.41%	10.67%	60.04%
Net Margin	-19.50%	-19.76%	11.14%	-38.61%	-1.20%	-20.02%
Return on Equity	-3.85%	-7.51%	17.16%	-10.44%	4.68%	-16.80%
Sales/Assets	0.54	0.40	0.55	0.16	0.47	0.41
Proj. Sales Growth (F1/F0)	-15.97%	-0.73%	4.16%	3.45%	-12.54%	-0.73%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Daily Price Chg	-0.90%	-1.85%	0.27%	-4.05%	-0.27%	-1.69%
1 Week Price Chg	-4.64%	-5.89%	0.39%	-13.11%	1.46%	-3.19%
4 Week Price Chg	-1.00%	-2.14%	2.95%	-2.14%	4.01%	-5.83%
12 Week Price Chg	16.24%	13.30%	7.76%	13.30%	14.75%	70.18%
52 Week Price Chg	-20.46%	-30.50%	22.29%	-45.06%	-15.77%	1.04%
20 Day Average Volume	2,718,596	264,631	1,536,375	2,918,437	1,374,813	7,717,893
(F1) EPS Est 1 week change	-1.30%	0.00%	0.00%	-0.51%	-8.84%	-0.89%
(F1) EPS Est 4 week change	-8.55%	0.00%	0.00%	-0.88%	-19.84%	-3.92%
(F1) EPS Est 12 week change	-12.70%	-16.75%	-0.40%	-15.82%	-56.44%	-21.46%
(Q1) EPS Est Mthly Chg	-6.10%	-0.83%	0.00%	-1.72%	-25.76%	-6.99%

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## 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.

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### 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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