

Patterson-UTI Energy (PTEN)

\$2.66 (As of 04/27/20)

Price Target (6-12 Months): **\$3.25**

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 company has got low leverage for its industry, along with strong liquidity that indicates a healthy financial standing to navigate the difficult environment. 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.

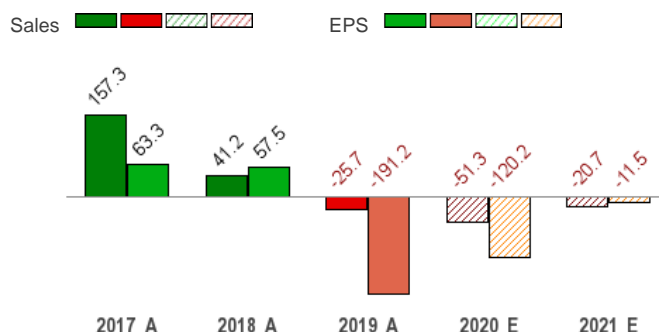
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$14.27 - \$1.61
20 Day Average Volume (sh)	7,182,574
Market Cap	\$495.7 M
YTD Price Change	-74.7%
Beta	2.38
Dividend / Div Yld	\$0.08 / 6.0%
Industry	Oil and Gas - Drilling
Zacks Industry Rank	Top 8% (20 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	-11.8%
Expected Report Date	07/23/2020
Earnings ESP	-1.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	124 E	137 E	159 E	164 E	954 E
2020	446 A	241 E	185 E	163 E	1,203 E
2019	704 A	676 A	598 A	492 A	2,471 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.67 E	-\$0.64 E	-\$0.60 E	-\$0.58 E	-\$2.43 E
2020	-\$0.45 A	-\$0.60 E	-\$0.67 E	-\$0.70 E	-\$2.18 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	0.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/27/2020. The reports text is as of 04/28/2020.

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.

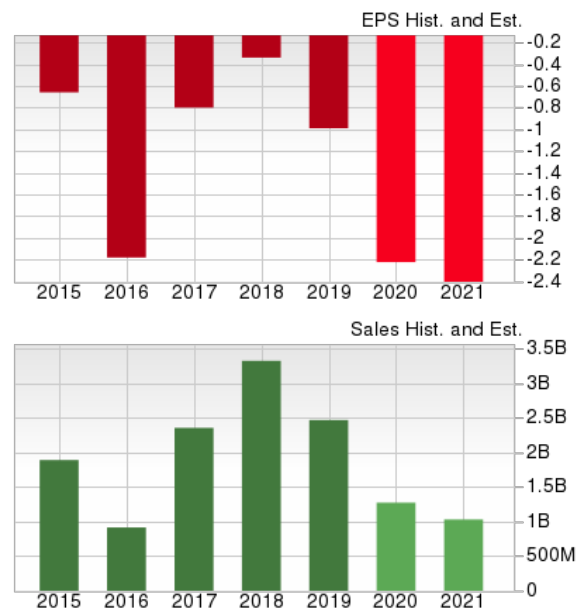
Patterson-UTI operates primarily in four segments: Contract Drilling (contributed 53% of the company's 2019 revenue), Pressure Pumping (35%), Directional Drilling (8%), and Others 4%).

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's total debt is currently more than \$1 billion. Importantly, the company's debt-to-capitalization as of the end of 2019 was 26.1%, quite conservative versus 43.3% for the sub industry to which it belongs. Apart from low leverage for its industry, Patterson-UTI has ample liquidity with cash and cash equivalents of \$174 million and \$600 million available under the revolving credit facility.

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.
- ▼ Meanwhile, 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-UTI Reports Narrower Q1 Loss on Solid Contract Drilling

Patterson-UTI Energy reported first-quarter 2020 net loss of 45 cents per share, narrower than the Zacks Consensus Estimate of a loss of 46 cents, attributable to better-than-expected sales from the Contract Drilling unit. Also, revenues from the segment came in at \$267.4 million, above the Zacks Consensus Estimate of \$258 million.

However, the loss was wider than the year-ago loss of 14 cents. This downside is due to weak U.S. drilling activity and higher total costs and expenses.

Although total revenues of \$445.93 million beat the Zacks Consensus Estimate of \$438 million, the top line plunged 36.7% year over year.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	1.89%
EPS Surprise	2.17%
Quarterly EPS	-0.45
Annual EPS (TTM)	-1.33

Poison Pill Adoption

In a separate press release, Patterson-UTI announced its adoption of a limited-duration shareholder rights agreement and declared a dividend of one preferred share for each outstanding share of its common stock payable May 8, 2020 to its shareholders of record. Per the company, the rights pact was followed as its present share value does not mirror its inherent long-term worth, thanks to the coronavirus pandemic that upended most sectors until now. In fact, shares have been trending 72.5% down year to date.

Management confirmed that the rights plan will be exercised when an investor accumulated more than 10% of a stock, contingent upon customary conditions. The plan will provide stockholders with the right to purchase shares at a discounted price, which will dilute the stock and prevent a hostile takeover.

Segmental Performance

Contract Drilling: This segment's revenues totaled \$267.4 million, down 28.2% year over year. Meanwhile, the unit lost \$404 million in the first quarter against a profit of \$21.2 million in the year-earlier period.

While average rig revenues per operating day increased to \$23,800 from \$23,590 in the first quarter of 2019, it was more than offset by a 4.8% rise in average daily rig operating costs. Consequently, average rig margin per day contracted 10% year over year to \$9,250.

The unit was also plagued by a fall in both operating days (from 11,291 to 11,235) and the number of rigs operational (from 175 to 123).

Pressure Pumping: Revenues of \$125.1 million dropped 49.5% from the year-ago sales of \$247.6 million as activity decreased. Moreover, the segment's operating loss widened to \$35.5 million from \$18.8 million in the first quarter of 2019 on lower revenues and margins.

Directional Drilling: The unit's revenues totaled \$34.5 million, down 34.8% year over year. Moreover, the segment incurred an operating loss of \$10.6 million compared with \$5.6 million loss in the corresponding quarter of 2019. The results were hurt by higher development costs.

Other Operations: Revenues came in at \$19 million, 39.2% below the year-ago figure of \$31.2 million. Moreover, the unit incurred a quarterly loss of \$18.7 million, wider than the loss of \$5.2 million in the year-ago quarter. This deterioration was mainly on account of lower revenues and elevated impairment charges.

Capital Expenditure & Financial Position

During the quarter, Patterson-UTI spent \$71.9 million on capital programs (compared with \$118.3 million in the first quarter of 2019). As of Mar 31, 2020, the company had \$152.2 million in cash and cash equivalents and \$966.8 million in long-term debt.

Guidance & Outlook

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 due to the tumbling oil prices. Management warned that drilling activity may decline 60% in 2020. As a response, the company expects to run just four frack fleets in the second quarter, indicating a decline from the earlier-projection of 10. By Jun 30, this oilfield service provider will likely lower its rig count to 70, falling steeply from an average of 123 at the first-quarter end.

To cope with the current market volatility, Patterson-UTI is taking strategic measures to trim its expenses.

For the second quarter of 2020, the company anticipates to record a total of \$50 million of charges associated with the savings.

The average rig count for the period is expected to drop by one-third of the first-quarter average. Depending on the currently active contracts, the company estimates an average of 71 rigs operating under term contracts in the second quarter as well as an average of 50 rigs under term contracts during the four quarters ending Mar 31, 2021.

In pressure pumping, Patterson-UTI expects the unit to make indirect support cost savings of around \$65 million annually. The company's directional drilling segment projects to save support costs worth \$10 million annually.

Meanwhile, the board lowered the company's regular quarterly dividend by 50% to 2 cents per share. The dividend is payable Jun 18 to its shareholders of record as of Jun 4, 2020. Further, Patterson-UTI, which halted share repurchases in the first quarter, is not planning any more buybacks currently.

Recent News

Patterson-UTI Slashes Capex

On **Apr 2**, Patterson-UTI Energy said it will slash its 2020 spending about 40% from the previously set target as the drilling contractor looks to save cash in a time of depressed crude prices. The company's capital spending is set to fall by about 60% from last year to \$140 million. Further, Patterson-UTI will more than halve executive group compensation this year and bring direct operating costs in line with activity.

Patterson-UTI Reports March Drilling Activity

On **Apr 3**, Patterson-UTI declared that its March 2020 drill rig count averaged at 124.

Valuation

Patterson-UTI shares are down 72.9% in the year-to-date period and 79.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 76.8% and 39.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 82.3% and 42.3%, respectively.

The S&P 500 index is down 10.2% and 0.9% in the year-to-date period and over last year, respectively.

The stock is currently trading at 2X trailing 12-month EV/EBITDA, which compares to 8.62X for the Zacks sub-industry, 3.79X for the Zacks sector and 10.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.14X and as low as 1.57X, with a 5-year median of 5.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3.25 price target reflects 0.51X 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	8.62	3.79	10.52
	5-Year High	29.14	14.84	10.41	12.87
	5-Year Low	1.57	4.05	3.06	8.27
	5-Year Median	5.72	8.9	6.53	10.78
P/S F12M	Current	0.42	0.39	0.67	3.23
	5-Year High	4.77	3.24	1.46	3.44
	5-Year Low	0.21	0.37	0.58	2.54
	5-Year Median	1.29	1.91	1	3.01
P/B TTM	Current	0.17	0.12	0.73	3.81
	5-Year High	2.06	1.02	1.62	4.55
	5-Year Low	0.11	0.11	0.51	2.84
	5-Year Median	0.98	0.63	1.32	3.64

As of 04/27/2020

Industry Analysis Zacks Industry Rank: Top 8% (20 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Diamond Offshore Drilling, Inc. (DO)	Neutral	3
Helmerich & Payne, Inc. (HP)	Neutral	3
Nabors Industries Ltd. (NBR)	Neutral	3
Noble Corporation (NE)	Neutral	3
Precision Drilling Corporation (PDS)	Neutral	3
Transocean Ltd. (RIG)	Neutral	3
SAIPEM SPA SAN (SAPMF)	Neutral	3
Ensco plc (VAL)	Neutral	3

Industry Comparison Industry: Oil And Gas - Drilling				Industry Peers		
	PTEN	X Industry	S&P 500	DO	HP	NBR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	D	B	A
Market Cap	495.71 M	92.56 M	19.77 B	129.45 M	1.93 B	103.16 M
# of Analysts	8	5	14	5	7	8
Dividend Yield	6.01%	0.00%	2.13%	0.00%	16.03%	0.00%
Value Score	A	-	-	B	B	C
Cash/Price	0.36	1.35	0.06	1.21	0.21	4.08
EV/EBITDA	2.32	3.59	12.09	25.50	3.71	5.71
PEG Ratio	NA	NA	2.36	NA	NA	NA
Price/Book (P/B)	0.18	0.05	2.70	0.04	0.49	0.04
Price/Cash Flow (P/CF)	0.63	0.99	10.70	24.54	2.55	0.19
P/E (F1)	NA	31.16	18.72	NA	NA	NA
Price/Sales (P/S)	0.22	0.14	2.12	0.13	0.72	0.03
Earnings Yield	-81.95%	-109.85%	5.19%	-313.83%	-3.39%	-675.20%
Debt/Equity	0.35	0.61	0.72	0.61	0.12	1.63
Cash Flow (\$/share)	4.23	0.46	7.01	0.04	6.94	66.31
Growth Score	A	-	-	F	C	A
Hist. EPS Growth (3-5 yrs)	NA%	-36.68%	10.88%	-39.81%	-17.65%	NA
Proj. EPS Growth (F1/F0)	-120.58%	-18.62%	-5.87%	-15.76%	-134.53%	21.28%
Curr. Cash Flow Growth	-21.95%	-21.38%	5.92%	-96.96%	25.65%	-4.60%
Hist. Cash Flow Growth (3-5 yrs)	-2.53%	-14.88%	8.55%	-64.80%	-8.86%	-20.25%
Current Ratio	1.58	1.58	1.23	1.58	2.75	1.90
Debt/Capital	25.95%	40.11%	43.90%	37.94%	10.76%	61.92%
Net Margin	-37.60%	-23.29%	11.32%	-36.43%	-0.82%	-23.02%
Return on Equity	-8.62%	-8.88%	16.60%	-10.86%	4.29%	-17.93%
Sales/Assets	0.47	0.39	0.55	0.16	0.45	0.42
Proj. Sales Growth (F1/F0)	-51.32%	-3.15%	-1.15%	-8.55%	-26.09%	-20.58%
Momentum Score	F	-	-	F	C	C
Daily Price Chg	2.70%	0.00%	2.63%	0.00%	-0.28%	-6.96%
1 Week Price Chg	25.73%	4.35%	-1.74%	19.01%	0.17%	-3.04%
4 Week Price Chg	24.30%	6.38%	8.71%	-48.16%	14.32%	-34.33%
12 Week Price Chg	-66.67%	-61.59%	-17.57%	-79.86%	-56.52%	-87.88%
52 Week Price Chg	-81.11%	-86.90%	-11.60%	-91.25%	-69.67%	-93.05%
20 Day Average Volume	7,182,574	467,960	2,734,148	7,273,162	2,917,134	405,133
(F1) EPS Est 1 week change	0.58%	0.00%	0.00%	0.00%	0.00%	-0.36%
(F1) EPS Est 4 week change	-11.76%	-21.88%	-6.57%	-2.74%	-625.47%	-22.43%
(F1) EPS Est 12 week change	-54.85%	-41.83%	-12.64%	-28.82%	-267.08%	-88.03%
(Q1) EPS Est Mthly Chg	-13.90%	-13.66%	-10.33%	-13.43%	-278.62%	-6.60%

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	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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