E&Ps, Service Providers Set to Benefit from Recent Events

Companies: CAT, CMI, EOG, HAL, HP, LBRT, NBR, NEX, OVV, PTEN, PXD, RNGR **February 26, 2021**

Research Question:

How did the recent winter storm event in Texas affect 2021 upstream E&P capex, demand for goods and services, and/or industry practices?

Highlights

The winter storm event in Texas, coupled with other global oil supply and COVID-19 pandemic factors, has caused commodity price levels to rise rapidly, which will help the oilfield service industry recover faster than earlier expected. An industry specialist said E&P companies are set to enjoy a period in which more cash flow from higher commodity prices will help pay down debt and recharge cash coffers and they will be able to hire best-in-class service providers while pricing is still low. While capital allocated to maintenance projects will dominate the first quarter (1Q) of 2021 and will benefit Ranger Energy Services Inc. (RNGR), the timetable of drilling and completing new wells will be moved up into 2Q instead of later in the second half (2H) of 2021, according to the specialist, which is a change from Blueshift Research's Jan. 29 Oil Patch report. The specialist named driller Helmerich & Payne Inc. (HP) as best-in-class with plenty of high-end, pad-type drilling rigs available to be hired. In addition, Liberty Oilfield Services Inc. (LBRT) is a top fraccing service provider, based on the company's value-added services and enlarged national footprint.

Higher Commodity Prices Coupled with Lower Service Pricing to Benefit E&Ps in Near Term

The recent unexpected rise in WTI crude pricing to the $60+ (per barrel) level and the natural gas price to the $2.50+ (per MMbtu) level—due in part to the winter storm event in Texas, global oil supplies being held back from Saudi Arabia and Russia, and the lessening effect of petroleum demand destruction caused by the COVID-19 pandemic in 2020—will help the industry recover faster than earlier forecast. With commodity prices rising, the industry specialist said E&P companies are in a good position—which he dubbed the "sweet spot"—of being able to reduce debt, increase cash flow, return cash back to investors, and hire best-in-class service providers at lower pricing. "It's going to be a much better year on the E&P side," he said.

Concerning two primary classes of E&P companies operating in the United States, the specialist explained:

- Certain privately held E&Ps, backed by private equity investors, could be in the best position to capitalize on market conditions. "Many of their management teams have very sharp minds and are able to hire best-in-kind service providers right now," he said.
- In the near term, large, publicly traded independent E&Ps, such as EOG Resources Inc. (EOG), Pioneer Natural Resources Co. (PXD), and Ovintiv Inc. (OVV) are continuing on a course of maintaining producing wells while trying to address heavy debt loads.

More Maintenance Projects Likely in 1Q21 on Commodity Price Rise and Storm Event (RNGR)

Spending on maintaining production coming from older wells, as found in Blueshift's January Oil Patch, and repairs to older wells recently damaged in the Texas storm is at the forefront of spending. In addition, maintenance spending may be boosted temporarily as E&P operators elect to rework a greater number of older wells than previously planned at today's higher oil prices, the specialist said. This type of work will likely benefit leading well service provider Ranger Energy Services, Inc., as identified in earlier Blueshift reports. The specialist said that Ranger has a good regional service offering and serves its customers with leased well service equipment.

Oilfield Service Spending Patterns Changing Due to Storm Event

According to the industry specialist, the recent events causing commodity prices to rise will likely push spending on new well projects into 2Q21, a change from Blueshift's January report, which found that new wells would likely not ramp until 2H21. The specialist explained that the dynamics of spending is changing. "We entered 2021 with spending on maintaining older wells as the lead generator of work. However, the ice storm caused an outage of approximately 2 million barrels a day coming from producing wells. That's substantial and I expect older wells will need more maintenance and new wells will need to be drilled and completed to replace the barrels that dropped out of the market," he said.

Updates from the Oil Patch

New Well Drilling Expected to Increase in 2Q (HP, NBR, PTEN)

The specialist believes it will take until the second quarter for the drilling of new wells to ramp because E&P operators will need to assess field damage, reevaluate prospects at the new $60+ oil price level, and begin soliciting bids from drilling contractors and pressure pumping (fraccing) service providers. “After all the damage is assessed, new well activity is likely to have a comeback in 2Q,” he said. In addition to an increase in demand for drilling services, the specialist believes rig pricing will be higher when 2Q begins. “Rig pricing is close to reaching an inflection point,” he said. The specialist named Helmerich & Payne (H&P) as likely to be the top and earliest beneficiary of new wells to be drilled, followed by Patterson-UTI Energy Inc. (PTEN) and Nabors Industries Ltd. (NBR). “H&P is gaining market share because they have the most number of pad-ready rigs,” he said.

Fraccing Services to Benefit From More Well Completions (HAL, LBRT, NEX)

At today’s commodity price levels, demand for fraccing services is expected to improve based on the number of drilled but uncompleted wells (DUCs) from 2020 needing to be put online. In addition, the increased number of new wells that may be drilled in 2Q will also need to be fracced. Although demand for fraccing is expected to increase, the industry specialist said that far too many frac pumping units continue to exist in the marketplace for pricing to experience any upward movement currently. However, he expects better pricing sometime later in 2H21.

The specialist named Liberty Oilfield Services as the best-in-class fraccing service provider based on the company’s value-added services, great relationships with clients, and its enlarged service footprint after its acquisition of Schlumberger’s OneStim pressure pumping operation. “They are on the verge of becoming a national player,” he said. The specialist is also impressed with NexTier Oilfield Solutions Inc.’s (NEX) operations. They are an “up and comer,” favorably placed and well advanced in the use of dual fuel engines in their pumping operations. Halliburton Co. (HAL), he said, continues to hold the largest market share based on its national service footprint.

Areas to Watch

The industry specialist suggested two areas to watch concerning the global oil markets and ESG (environmental, social, governance) initiatives in the United States:

- **Concerning global oil supply:** There is still plenty of inventory, though Saudi Arabia has held back production recently. “The ‘fly in the ointment’ could be the Saudis increasing production, then Russia will follow suit,” he said.
- **Concerning ESG initiatives (CAT, CMI):** E&P companies will be looking to oilfield service providers to reduce their use of diesel in operations at the well site. This will benefit engine suppliers Caterpillar Inc. (CAT) and Cummins Inc. (CI) who now manufacture and sell dual fuel (diesel/natural gas) engines to service providers. As an example of the market potential, the industry specialist said that only 25% of the current pressure pumping equipment fleet is outfitted with dual fuel engine capabilities. While there are few electrically powered pumping units, the majority of the pressure pumping fleets available for hire run on diesel fuel only.

Background

Blueshift Research had the opportunity to interview a U.S.-based industry specialist who is an expert on U.S. upstream activities to assess his understanding of how the unexpected winter storm event in Texas, coupled with higher commodity prices, would affect oilfield service spending in 2021.

Next Steps

In its next Oil Patch Update, Blueshift Research will interview the U.S.-based industry specialist and field representatives on the effects of newly formed capex budgets on 2021 oilfield service activity.

Report Coverage Areas and Companies

Blueshift Research has been reporting on the following oil patch areas since Jan. 27, 2015, including coverage of the following public companies:

- E&P (CLR, FANG, MGY, MRO, PE, PXD)

- Well Stimulation (FRAC, HAL, LBRT, NEX, PUMP, QES, RES, SLB, USWS)
- Well Services (BAS, BKR, KEG, RNGR)
- Onshore Drilling (HP, ICD, NBR, PDS, PESXQ, PTEN, UNT)
- Fraccing Materials (CRR, FTK, HCLP, IR, NOV, SLCA, WEIGF)

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