Paradigm Shift Begins in Energy Industry, E&P Capex Increases

Companies: BASX, BKR, BP, CHX, HAL, HP, NBR, NEX, PTEN, PUMP, RNGR, SLB, XOM **April 30, 2021**

Research Question:

What is the status of the energy industry's transition to more eco-friendly operations and how are oilfield capital expenditures being affected because of higher commodity prices?

Highlights

The energy industry is going through a step change more quickly than many in oil and gas industry circles realize, according to an industry specialist. Companies are still providing power generated from fossils fuels into an industry now being powered by more environmentally friendly technologies, which help to reduce greenhouse gases and capture carbon. Meanwhile, E&P capital spending in the U.S. oilfield is set to increase in the low double digits year to year (YY), according to field representatives. While demand for services is increasing in the drilling, well completion, and well service/workover sub-sectors, pricing has not increased yet because of the overabundance of equipment in all three categories. Drilling contractors Helmerich & Payne Inc. (HP) and Patterson-UTI Energy Inc. (PTEN) are equally matched with rig technologies and equipment placement. Well completion/fraccing service provider Halliburton Co. (HAL) leads because of its operational footprint and Basic Energy Services Inc. (BASX) and Ranger Energy Services Inc. (RNGR) lead in the well service/workover category because of their respective geographical reaches.

Paradigm Shift Begins, Oilfield Service Providers Pivot into Energy Industry Leadership (BKR, HAL, SLB)

A paradigm shift is happening in the energy industry—and this change is happening faster than many in oil and gas industry circles realize, according to an industry specialist. "The industry envisions a more leisurely pace of transition that doesn't begin to develop traction until after 2030 to reach goals by 2050," he said. "In addition, green energy is now part of recovery plans globally, including the U.S., and it is happening whether the [oilfield] industry wants it or not."

Concerning the pace of transition, the specialist said four things are driving the change:

- There is an overwhelming global attitude that it is time to make the change—either to avoid climate catastrophes or structure fatigue.
- There is also a general hostility toward the fossil fuel industry.
- The cost to generate renewables like solar and wind continue to decline.
- Global climate change policies are becoming more aggressive.

Concerning oilfield service providers pivoting into leadership in the energy industry, the specialist said Baker Hughes Co. (BKR) is leading the pack, followed by Schlumberger Ltd. (SLB), then Halliburton. In explaining his thoughts on the order of leadership, the specialist made these comments:

- Baker Hughes' leadership in carbon capture and hydrogen markets through niche market acquisitions is novel.
- Schlumberger's near-term push into worldwide digital markets is improving efficiency.
- Halliburton continues in its leadership in the global traditional oilfield sector; however, its transformation into the global green power sector is not up to scale yet.

The industry specialist mentioned a few other companies exhibiting leadership, expertise, or technology as the push into eco-friendly energy production grows. These include:

- BP PLC's (BP) initiative to eliminate natural gas flaring and "electrify" all of its Permian Basin well service operations by 2025,
- Exxon Mobil Corp.'s (XOM) initiative to build out a carbon capture hub on Houston's ship channel, and
- Niche player ChampionX Corp.'s (CHX) investments in technology to identify methane emissions in the well bore and mitigate their release, which is useful to achieving net zero emissions.

E&P Capex Expected to be up in Low Double Digits YY

Among six E&P field representatives and the industry specialist, capital expenditures on new projects in the oilfield are expected to increase by an average 20% YY on new capex budgets being firmed, with oil prices stabilizing around $60+ (per barrel) and natural gas prices at approximately $2.50 (per mcf). This is more bullish than the 10% YY gain mentioned in Blueshift's March 19 Oil Patch report.

Concerning new project spending, a few of the E&P drilling managers said:

- "We will spend 20% more this year, mainly on drilling, workover, and water management."
- "Our budget in the oilfield will be the same as last year. Right now we are in the acquisition mode, so we are spending our monies on acquiring properties rather than drilling right now."
- "We will spend 20% more this year because we are kind of in a unique situation in that we filed bankruptcy last year and had minimal work in the field."

Drilling Sector Growing Incrementally (HP, NBR, PTEN)

The industry specialist said the rig count, an indicator of demand, is growing incrementally, which is a positive especially for major drillers, such as Helmerich & Payne, Nabors Industries Ltd. (NBR), and Patterson-UTI. The specialist believes Helmerich & Payne and Patterson-UTI are best in class at this juncture of the drilling year because of their superior rig technologies and the regions in which each company serves. While Nabors has excellent rig technology and positioning of its fleet, the specialist believes they may lag the other two major drillers somewhat for uncertain reasons. In a change from Blueshift's March report, the specialist said that Patterson-UTI is in a better position now to gain share because several of the company's rigs are in prime natural gas basins. "The natural gas price certainly is supporting more drilling in parts of Texas and the Northeast where some of Patterson's rigs are working," he said.

Rig rates for high-specification rigs, such as those owned by Helmerich & Payne, Patterson-UTI, and Nabors, are the highest among all rig types; however, prices have not increased yet, though the industry specialist expects upward pressure on rates will occur later in the second quarter (Q2) of 2021.

Well Completions/Fraccing Growing Slightly (HAL, NEX, PUMP)

Demand for well completions utilizing fraccing services has begun to grow in tandem with the demand for drilling, since the two operations can be conducted simultaneously at the same well site. Pricing, however, has not increased yet because there continues to be an overabundance of supply and competition is stiff. Similar to findings in Blueshift's March report, pricing may not increase until the second half of 2021 when more frac crews begin working.

The industry specialist said that key fraccer Halliburton is gaining share because smaller pressure pumping companies cannot compete effectively against Halliburton's regional footprint. However, the specialist reported that NexTier Oilfield Solutions Inc. (NEX) "looks good" because the company has a competitive advantage with its dual fuel environmentally friendly pressure pumping fleet. In addition, he said that ProPetro Holding Corp. (PUMP) is well positioned in the Permian Basin, the hub of much of the new oilfield activity, and has key, well-funded clients in the area as customers.

Well Service/Workover Sector Benefiting from Continued Maintenance Spending (BASX, RNGR)

The well service/workover sector has been the primary beneficiary of maintenance spending for more than a year after COVID-19 and the winter storm event in Texas caused havoc in the marketplace for crude oil and natural gas. Key service providers Basic Energy Services and Ranger Energy Services continue to benefit from solid maintenance spending in the sector to keep older wells pumping, which includes replacement of many key well components. Both companies are geographically well-positioned in key producing areas in Texas to take advantage of older well work due to the winter storm earlier this year, the industry specialist said. Meanwhile, too many privately held firms with low overhead are competing with the larger firms for remedial work, so workover rig pricing has remained steady quarter to quarter.

Areas to Watch

Production Discipline

The industry specialist said that E&P companies and OPEC+ must continue to exercise discipline and not release too much supply into the global marketplace, similar to comments he made in Blueshift's March report. "Our hope is that producers will not open up production too quickly and put too much supply into the market," he said.

A Resurgence of COVID-19 in Certain Areas of the World

If a major resurgence of COVID-19 emerges again, it could dampen demand for petroleum products, similar to the demand destruction the industry underwent in 2020. "We are watching what is happening in India now with the virus and other areas but, so far, there has not been a negative effect on petroleum markets," the specialist said.

Background

Blueshift Research had the opportunity to interview a U.S.-based industry specialist, who is an expert on U.S. energy industry activities, and six E&P field representatives to discuss the state of energy industry transition and capital spending in the U.S. oilfield.

Next Steps

In its next Oil Patch Update, Blueshift Research will interview the U.S.-based industry specialist and field representatives to check on demand and pricing in the U.S. oilfield during late second-quarter 2021.

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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