$40 Oil Could Trigger Incremental Oilfield Service Activity

Companies: BAS, BKR, HAL, HP, PDS, PTEN, PUMP, RNGR, SLB **May 29, 2020**

Research Question:

In light of the recent oil price and demand destruction, what is the status of field activity as it relates to drilling, completing, or servicing wells?

Highlights

Oilfield service activity—including drilling, completing, and servicing older wells—collapsed in light of demand and oil price destruction and is showing no signs of recovery yet, with oil prices hovering in the $30s. Some sources, however, agree that incremental activity could emerge in the field if the oil price were to reach $40 and stabilize. Meanwhile, a severe lack of work exists within drilling, well stimulation/fraccing, and well service ranks. Pricing in all three categories has suffered immensely from a severe lack of demand coupled with an overabundance of equipment.

Oil Price Reaching $40 Could Trigger Some Incremental Oilfield Service Activity Later in 2020

- Three repeat sources—including a drilling manager with a Permian Basin E&P company, a drilling contractor in the Midcontinent region, and an industry specialist—believe the industry hit bottom in April and the recent rise in the oil price to the $30 level was a positive sign for the industry, though it is not high enough yet to trigger any new activity. Two of the three sources, however, including the drilling contractor and the industry specialist, agreed there could be a gradual but incremental improvement in oilfield activity later in the year if the oil price reaches $40 and stabilizes. “We are fishing for new business, but no one wants to do anything until oil is at least at $40,” the drilling contractor said.

- Sources agreed the recent improvement in oil prices from a negative marker during Q1 reflects a slight incremental increase in demand for crude products as vehicular traffic around the nation increases. Sources agreed it was beneficial for the industry when certain OPEC and non-OPEC countries cut oil production, helping diminish the oversupply of oil in the global market. “We are not as pessimistic as we were before and we are hopeful that supply and demand for crude products will increase as restrictions tied to COVID-19 are lifted and traffic increases. We also see some rebalancing in the global oil markets,” said the industry specialist.

Drilling Demand, Rig Rates Continue to Suffer in Near-Term (HP, PTEN, PDS)

- Three repeat sources, including two E&P sources and one drilling contractor, said demand for any and all types of rigs has collapsed in the near-term. The precipitous drop in demand for rigs of any type has caused contracting activity to come to a halt. The drilling contractor source said, “I have a little bit of optimism that some people think this is a V-shaped event, but there are others who think this will continue to drag on. There are so many geopolitical situations that it's hard to predict.”

- Prior to the unprecedented demand destruction event, 1,500-HP, high-end technology “SuperSpec” rigs were working for approximately $20,000 per day, but sources agreed E&P customers are not requesting bids for work and that bidding and pricing activity has come to a halt. “Some SuperSpec rigs are still working at those daily rates [of $20,000], but there is no one looking for rigs now, including us,” a Houston-based E&P source said. A Permian Basin driller noted, “I think that we are looking at prices that are around $18,000 per day, but there isn't anyone even asking about rates right now. I would hope it would have leveled off by now, but it hasn’t.”

Diminished Demand, Pricing for Well Stimulation/Fraccing Equipment (HAL, SLB, PUMP)

- The well stimulation/fraccing category is suffering from lack of demand and severe downward pressure on pricing, confirming an industry specialist’s predictions in Blueshift Research’s April 24 Oil Patch report. Three repeat E&P company sources said they would continue to use frac pump units, such as those owned by Halliburton Co. (HAL) and Schlumberger Ltd. (SLB), that were contracted long-term prior to the downturn, but there was no reason to hire any additional fraccing contractors for well stimulation work at a time when there is too much production in the marketplace.

- “We have large leases with only a few obligations. We actually drilled some wells and three were put on hold for completion until [oil] prices turn around. We hope to be able to frac those wells by July or August,” a Permian Basin E&P completions manager said.

- "There are simply way too many pumping units with way too little work. If we needed a unit—which we don't—I think pricing could be down by at least a third compared to what we paid last year," said one E&P company completion manager.

Workover/Well Service Sector Hurting (BAS, BKR, RNGR)

- Two repeat well service contractors located in the Midcontinent region agreed business continues to be very slow and that workover rig demand is slack. These two contractors agreed that workover rig utilization, a data point that measures demand, is only about 20% across the U.S. drilling basin spectrum. "We only have one [workover] rig running. Things are looking rough out there and we are not immune to hard times," a Midcontinent well service manager said. Both contractors, however, believe their market sub-sector will improve within six months. "I predict there will be a rebound in the oil industry and we could have more work in our sector," one said.
- Interestingly, one of the contractors said his company's activity had been centered around replacing downhole electric submersible pumps (ESPs)—which are expensive to build and maintain—with rod pumps, such as those manufactured by Baker Hughes Co.'s (BKR) Lufkin Industries subsidiary. "That is dependable equipment and the cost to buy and maintain is much less than ESPs," one contractor explained.
- Pricing for standard 500-HP workover rigs is now averaging $250 per hour, down from $300 per hour recorded in the spring of 2019. Regarding lower hourly rates, one of the well service contractors said the lower rate is "only obtainable if and when you can find work."

Background

Blueshift Research had the opportunity to interview 11 repeat sources working in the drilling, completion, or workover sectors of the U.S. oilfield or who could comment on the industry as a whole for the remainder of 2020. Sources commenting on overall activity for the remainder of 2020 include two drilling contractors and an industry specialist. In the drilling sub-sector, one source is a drilling contractor and two work for small E&P companies. In the well stimulation/completion sub-sector, all three sources work for E&P companies. The two sources in the workover/well service sub-sector work for well service companies. Interviews were conducted mid to late May

Next Steps

In its next Oil Patch Update, Blueshift Research will interview drilling, well stimulation/fraccing, and well services representatives and experts across various key U.S. drilling regions to gauge any incremental industry activity as the second quarter of 2020 comes to a close.

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:

- Well Stimulation (HAL, RES, SLB)
- Well Services (BAS, KEG, RNGR)
- Onshore Drilling (HP, NBR, PTEN)
- Fraccing Materials (CRR, FTK, HCLP, SLCA)

To access these reports, please contact your Blueshift Research sales representative.