Blueshift RESEARCH ***UPDATES FROM THE OIL PATCH***

Oilfield Service Activity Likely to Remain Muted for 2H 2020

Companies: BAS, FANG, HAL, HP, LBRT, NBR, NEX, PE, PTEN, PUMP, RNGR **July 17, 2020**

Research Question:

What is the outlook for oilfield service activity in the second half of 2020?

Highlights

According to an industry specialist, the market for oilfield services in the United States for the remainder of 2020 will continue to suffer because oil prices are unlikely to recover to the $50 range needed for E&P companies to expand activity. While all sub-sectors—including drilling, well stimulation/fraccing, and workover/well service—have been hard hit by demand destruction, certain providers may benefit more than others.

According to the specialist, Nabors Industries Ltd. (NBR) in the drilling sector has a keen technology package on its rigs superior to others; among well stimulation providers, Halliburton Co. (HAL) still has the largest market share and solid technology, and Basic Energy Services Inc. (BAS) continues to be the leading well service provider based on its regional and service offerings. Diamondback Energy Inc. (FANG) and Parsley Energy Inc. (PE) were mentioned by the specialist among mid-sized publicly traded E&P companies as having shrewd management teams amenable to reassessing field operations during the downturn.

On Oil Pricing…

$40 oil too low, $50 needed for growth

The industry specialist said the current oil price around $40 is still too low for any sustainable growth in U.S. oilfield activity. A stable $50 price is needed for growth in oilfield activity to take place after E&P companies are able to increase capex budgets sliced earlier this year. The specialist does not expect any meaningful increase in field activity will take place before 2021. As a side note, he noted certain financial considerations are playing a part in holding back more field activity. “Although service pricing dropped significantly when E&P companies cut capex budgets earlier this year, many industry players are strapped with debt, bankruptcies, and other financial obligations and cannot move forward with more field activity until these financial considerations are dealt with,” he said.

Specifically, his comments concerning supply and demand playing into short-term and long-term oil pricing scenarios included:
“I am concerned that strip pricing is showing $40 for years.”
“I don’t see much change in oil pricing and/or field activity occurring in Q3 and no movement of note in Q4.”
“We are past the reasons that pricing fell so low because demand underwent destruction caused by the coronavirus being met by oversupply coming from Russia and Saudi Arabia.”
“Something to watch is Russia and Saudi Arabia relaxing the [production] cuts they announced earlier.”

On E&P Company Sector…

Operators using downturn to reassess operations may benefit first (FANG, PE)

Operators using the downturn to reassess operations—including frac designs, well spacing in full field development projects, and other ways that emphasize wellbore integrity—may be the first to benefit in a recovery. The specialist explained that better well bores produce more and cost less to maintain and operate and eliminate a lot of workovers.

Concerning two E&P companies likely to benefit because of good management decisions, the industry specialist named:
Diamondback Energy: “This company has a shrewd, technical management team that operates conservatively and manages growth well.”
Parsley Energy: “They have a management team more amenable to change.”

On Drilling Markets…

Rig count at all-time low, but some drillers faring slightly better than others (HP, NBR, PTEN)

The industry specialist said the drilling contractors, both large and small, have suffered greatly during the downturn. Certain drillers, however, have fared better than others, mainly due to technology initiatives. Interestingly, the specialist said that E&P companies have changed their earlier thinking from drilling wells faster to get more oil to market more quickly to one of keeping the wellbore intact. He explained that wellbore integrity had suffered in the past few years when wells were drilled too quickly.

Concerning specific drilling companies, the industry specialist said:
Nabors Industries: "I see Nabors coming through this downturn better than Helmerich & Payne and Patterson because of the technology packages on their rigs that include directional drilling and automation. However, they do have some debt issues."
Helmerich & Payne Inc. (HP): "H&P has a good technology package on their rigs and a great balance sheet."
Patterson-UTI Energy Inc. (PTEN): "Patterson's customer mix hurts them. One of their major customers just filed bankruptcy and released seven of their rigs."

On Well Stimulation/Fraccing Market…

Equipment oversupply still exists, but sector could recover early in an upturn (HAL, LBRT, NEX, PUMP)
The industry specialist said service providers in the well stimulation sector continue to suffer from both lack of demand and an oversupply. As an example of oversupply, there were 400 frac pump trucks operating in 2018 and now there are only 75 working across the United States. He suggested this sector needs to consolidate but that will be a challenge. Further, the specialist said this sector could recover early in an upturn because of the significant number of drills that were drilled but not completed when the market fell. "The DUC [drilled, but uncompleted] well count is significant," he said.

Concerning specific well stimulation/fraccing service providers, the industry specialist said:
Halliburton: "Halliburton will survive. While they don't seem as concerned about market share these days, they do have the most toys in all the U.S. regions and they always keep up with technology."
Liberty Oilfield Services Inc. (LBRT): "Liberty is an exceptional provider. They are technology oriented and have good completion 'recipes' for their customers. They also partner with their clients on the technical side."
Nextier Oilfield Solutions Inc. (NEX): "This company has a shrewd management team and a new pressure pumping fleet."
ProPetro Holding Corp. (PUMP): "ProPetro has good customer relations, crews, and is a Permian Basin specialist."

On Workover/Well Service Market…

Favored sector for bringing production back online (BAS, RNGR)
The industry specialist said workover/well service providers will be the first to benefit in a stable $40 to $50 oil price range. "This is the low-hanging fruit in the industry. Privately held E&P companies are likely to need to keep some of their older wells pumping by keeping these companies working," he said. While many privately held well service providers still exist in the field, the specialist said that publicly traded Basic Energy Services remains the provider of choice because of its regional and service offerings.

Areas to Watch

Lots of wildcards to consider before recovery can begin
In addition to watching oil price movements, the industry specialist mentioned several "wildcard" events that could be in the offing that could either help or hinder a recovery. These include:

- The coronavirus pandemic continuing for an undetermined length of time, causing demand for petroleum products to stifle.
- The relaxation of some E&P budget cuts during Q2 earnings calls that may help field activity.
- Some new activity announcements in the Permian Basin during 2H.
- Surprise announcements from producing countries, particularly Russia and Saudi Arabia, about increasing production.

Background

Blueshift Research had the opportunity to interview a U.S.-based industry specialist who is an expert on U.S. upstream activity. This specialist is familiar with drilling, completion, and well service activity and watches trends that would affect oilfield service activity in various regions. This report is a follow-up to Blueshift's February and March reports in which the same industry specialist was interviewed on his outlook on 2020 oilfield activity.

Next Steps

In its next Oil Patch Update, Blueshift Research will interview an expert with insight on publicly traded mid-sized E&P companies.

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:

Updates from the Oil Patch

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

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