

Helmerich & Payne

Resilient NAM & Big Step Forward in Int'l

Maintain Rating: BUY | PO: 39.00 USD | Price: 36.26 USD

Solid 1QFY24 EBITDA beat led by NAM margin; FCF in-line

HP's 1QFY24 EBITDA of \$208mm was 6%/8% above Cons/BofA; the beat was driven by strong NAM Solutions daily margin of \$18.7K (+\$1.2K QoQ) with average revenue/day of \$38.3K (+\$985 QoQ) and average opex/day of \$19.6K (-\$225 QoQ). Please see Exhibit 1 for summary variances. 1QFY24 FCF of \$50mm was in-line with Cons with higher Cash from Operations (CFO) offset by higher capex. HP paid base + supplemental dividend of \$0.42/share (4.6% annualized yield) & repo'd \$47mm of its shares netting to \$90mm of total capital returned to shareholders in 1QFY24. HP's share repo plan resets at YECY23.

HP thinks its NAM activity & margins may have bottomed

HP acknowledged tempered rig add expectations, but it expects its NAM rig count to be up from 151 on 12/31 (154 on 1/29) to 154-159 by 3/31. Its NAM margins were +\$1.2K QoQ in 1QFY24 & mgmt. expects for margins to "remain relatively flat to up slightly" in 2QFY24. Thus, HP thinks its NAM recount and margins may have bottomed in 4QFY23.

8 incremental Middle East rigs a big boost to Int'l strategy

HP received preliminary notification of award for 7 super-spec rigs in the Middle East. These rigs are expected to start-up shortly after delivery in 1H FY25. Note these rigs are being converted to walking systems and exported from HP's idle rig inventory in the US. HP also re-contracted 1 of its idle Bahrain rigs. Including the 1 rig previously awarded in Saudi, HP will now have 9 rigs in Middle East, doubling its current Int'l active rig count.

Strong NAM + big step forward in Int'l to propel HP tmrw

HP's 2QFY24 guide implies EBITDA of \$195-\$220mm (+3% at the mid-point vs. Cons). Mgmt. outlook points to 3-5% upside to 2H FY24 Cons. Furthermore, HP winning 8 rig worth of contracts in Middle East is a big step ahead for its Int'l growth push. Maintain Buy on HP's strong NAM position, resilient/strong margins, and attractive cash returns.

Exhibit 1: HP 1QFY24 Earnings Variance

Actual results vs. Cons and BofA

	1QFY24			% Beat (Miss)		% Change	
	Actual	Cons	BofA	Cons	BofA	Q/Q	Y/Y
Total Revenue	677	658	654	6%	7%	3%	-6%
NAM Solutions	232	222	222	4%	4%	7%	-3%
Daily Margin (\$K)	\$18.7	\$17.7	\$17.8	6%	5%	7%	19%
Offshore GOM	5.1	5.1	4.8	1%	7%	-23%	-41%
International Solutions	7.8	5.1	0.4	51%	NM	NM	-30%
Other	-37	-37	-34	NM	NM	NM	NM
Total EBITDA	208	195	193	6%	8%	11%	-12%
FCF (CFO-Capex)	50	51	34	-2%	47%	-53%	-58%

Source: Bloomberg, Visible Alpha, BofA Global Research

BofA GLOBAL RESEARCH

29 January 2024

Equity

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Stock Data

Price	36.26 USD
Price Objective	39.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-8
52-Week Range	30.00 USD - 48.86 USD
Mrkt Val (mn) / Shares Out (mn)	3,709 USD / 102.3
Free Float	88.2%
Average Daily Value (mn)	46.35 USD
BofA Ticker / Exchange	HP / NYS
Bloomberg / Reuters	HP US / HP.N
ROE (2024E)	10.3%
Net Dbt to Eqty (Sep-2023A)	10.4%
ESGMeter™	Medium

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HP = Helmerich & Payne

Cons = Consensus

NAM = North America

Int'l = International

Opex = Operating expenditure

s/h = shareholders

FCF = Free cash flow

Repo'd = Repurchased

Mgmt. = management

FY = Financial Year

CY = Calendar Year

tmrw = tomorrow

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Timestamp: 29 January 2024 08:04PM EST

Price objective basis & risk

Helmerich & Payne (HP)

Our PO of \$39.00 is derived from our discounted cash flow valuation, which we believe is a better method to value HP than EV/EBITDA in these market conditions. We forecast earnings & cash flow through 2030, which we believe is the limit of market recognition, and then forecast a terminal growth of -3% due to potential disruptions from the energy transition while using a 7.5% WACC.

Downside risks to our price objective are 1) slower than expected recovery in US Land rig count, (2) weaker O&G prices, (3) market share loss, (4) operational challenges, (5) risk to paying its supplemental dividend if O&G price falters, pressuring US rig activity.

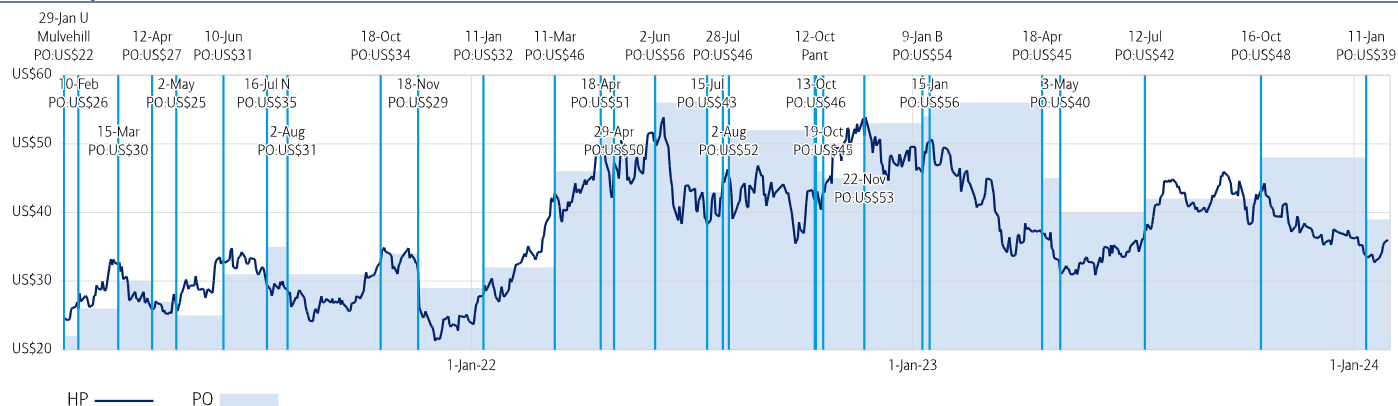
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Helmerich & Payne (HP) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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