

Weatherford International

4Q beat and stronger 2024 outlook

Maintain Rating: BUY | PO: 120.00 USD | Price: 87.69 USD

4Q EBITDA & FCF beat + strong progress in deleveraging

WFRD 4Q Adj. EBITDA of \$321mm was +3% vs. Cons \$311mm. The beat was driven by stronger WCC revenue & margins and higher “All Other” contribution, while PRI was in-line and DRE missed. Note “All Other” includes WFRD’s integrated services and projects business. 4Q FCF of \$315mm handily beat Cons of \$135mm, with help from strong YE collections. See Exhibit 1. Note WFRD repo’d \$75mm of its 6.5% Senior Secured Notes in 4Q23 & another \$151mm in Jan ’24, reducing the principal outstanding on its Secured Notes to \$97mm as of today. Net Debt at YE23 was \$820mm with net leverage at 0.7x.

1Q and 2024 Outlook point to ~5% upside to Cons EBITDA

WFRD expects 1Q revenue to decline by low-single-digit-% QoQ, & Adj. EBITDA margin to expand by 25-50bps QoQ in 1Q. This implies 1Q Adj EBITDA of \$315-\$320mm, which is 5-6% above Bloomberg Cons. For FY 2024, WFRD expects revenue to grow double-digit to low-teens-% YoY & Adj. EBITDA margin to “make meaningful progress towards its prior goal of 25%.” We think this implies 2024 Adj. EBITDA of close to \$1.40bn i.e., about 5% above Cons of \$1.34bn. Mgmt. expects ’24 Adj. FCF of >\$500mm, which is above Bloomberg Cons of \$455mm but roughly in-line with VA Cons of \$563mm. Note that FY24 capex is expected to be ~5% of revenue, implying FY24 capex of ~\$285mm i.e., 16% above Cons.

We expect WFRD to at least modestly outperform tmrw

We expect WFRD to modestly outperform tmrw on a combination of 1) good 4Q EBITDA & FCF beat, 2) stronger than expected 1Q and FY24 guidance, & 3) solid progress in deleveraging, all of which points to earnings upside, & a clearer path to commencement of s/h distributions by mid-2024. Maintain Buy on 1) strong execution and B/S optimization, 2) strong potential for WFRD to initiate a dividend by mid-year, & 3) inexpensive valuation.

Exhibit 1: WFRD 4Q23 earnings variance

Actual results vs Consensus and BofA

	4Q23			% Beat (Miss)		Actual % Change	
	Actual	Cons	BofA	Cons	BofA	Q/Q	Y/Y
Total Revenue	1,362	1,339	1,337	2%	2%	4%	13%
Drilling & Evaluation	97	112	112	-13%	-13%	-13%	-13%
Well Construction & Completion	131	121	121	8%	8%	10%	51%
Production & Intervention	88	88	88	0%	-1%	2%	0%
Segment Adj. EBITDA	316	322	321	-2%	-1%	0%	10%
All Other & Corporate	5	-11	-10				
Total Adj. EBITDA	321	311	311	3%	3%	5%	21%
% Adj. EBITDA Margin	23.6%	23.2%	23.2%	35bps	32bps	34bps	157bps
Free Cash Flow (FCF)	315	135	130	133%	142%	130%	84%

Source: Company data, BofA Global Research estimates, Bloomberg, VisibleAlpha

BofA GLOBAL RESEARCH

06 February 2024

Equity

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Stock Data

Price	87.69 USD
Price Objective	120.00 USD
Date Established	10-Nov-2023
Investment Opinion	C-1-9
52-Week Range	51.46 USD - 102.65 USD
Mrkt Val (mn) / Shares Out (mn)	6,324 USD / 72.1
Free Float	97.9%
Average Daily Value (mn)	73.20 USD
BofA Ticker / Exchange	WFRD / NAS
Bloomberg / Reuters	WFRD US / WFRD.OQ
ROE (2023E)	54.0%
Net Dbt to Eqty (Dec-2022A)	206.2%
ESGMeter™	NLA

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DRE / WCC / PRI = Drilling and Evaluation / Well Construction and Completions / Production and Intervention

Cons / B'berg / VA = Consensus / Bloomberg / Visible Alpha

Fcf = Free Cash Flow

Mgmt. = Management

repo'd = repurchased

tmrw = tomorrow

s/h = shareholder

WFRD = Weatherford International

VA= Visible Alpha

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Timestamp: 06 February 2024 08:57PM EST

Price objective basis & risk

Weatherford International (WFRD)

Our PO of \$120.00 is derived from our discounted cash flow valuation, which better method to value WFRD 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 -2.0% due to potential disruptions from the energy transition while using a 7.3% WACC.

Risks to our price objective are (1) WFRD likely did not invest much in itself since emerging from Ch. 11 bankruptcy in December 2019, and may have to significantly lift spending on organizational infrastructure, potentially hurting profitability and FCF, (2) WFRD may be forced to unwind its Russia business, which was 6% of 9M23 revenue, (3) still high gross debt and related restrictions on shareholder distributions, (4) faster than expected global transition away from O&G hurting demand for WFRD's products, and (5) any near term macroeconomic weakness hurting O&G demand and pricing

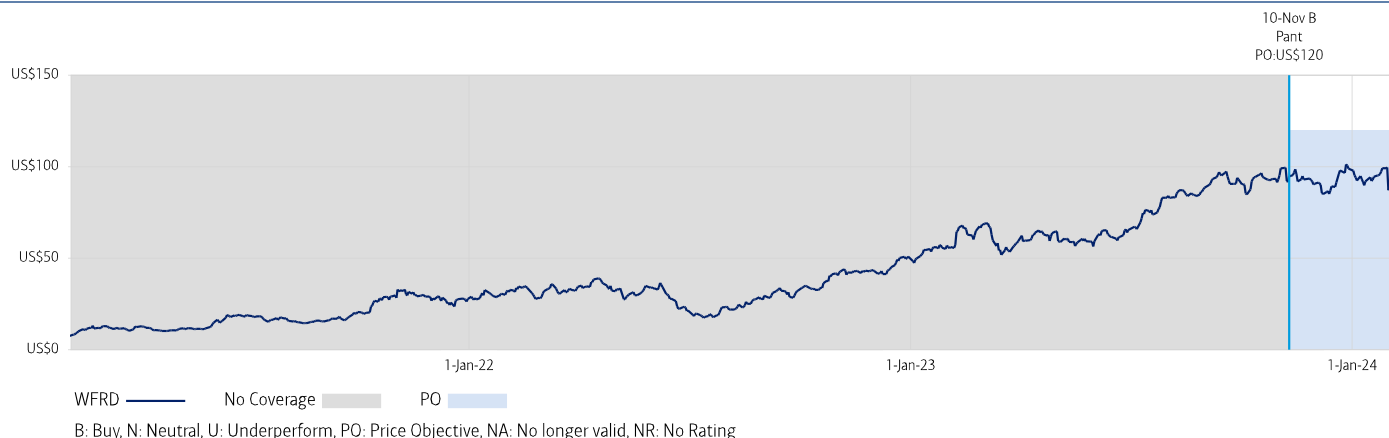
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Important Disclosures

Weatherford (WFRD) Price Chart



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

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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