

## Patterson-UTI Energy

## Resilient Profitability &amp; FCF + Strong Cash Returns to Shareholders

Reiterate Rating: BUY | PO: 14.50 USD | Price: 12.06 USD

## Strong '24 FCF &amp; accelerating cash return to shareholders

PTEN is delivering on the promise of its recent M&As with strong 4Q performance in its Completions (Nextier) and Drilling Products (Ultrerra) business. While lackluster Oil & Gas macro, incl. a very weak US gas price, likely results in modestly softer D&C activity in the US in the near term, we believe PTEN can outperform with its strong Drilling and (now) Completions and Drill Bits franchise. We tweak our '24E Adj. EBITDA by -2% to \$1.52bn; however, our '24E FCF of \$650mm (13% of m-cap) is roughly unchanged as the modest reduction in Adj. EBITDA is offset by lower-than-expected cash taxes and slightly lower capex. Even more importantly, PTEN announced share repurchase authorization of \$1bn, & accelerated near-term cash return to shareholders to >50% of FCF with a promise to return at least \$400mm to shareholders in '24E (≥8% of market-cap), including dividend.

## PTEN/NEX synergy shining through in strong Completions

With just 6 months since the close of PTEN/NEX merger, the company has already hit an annualized synergy run rate of >\$100mm as part of its original ≥\$200mm target (to be achieved by 1Q25). This helped PTEN deliver strong profitability in Completions, where 4Q23 gross margin of \$232mm handily beat mgmt. guidance of \$200mm. Meanwhile, PTEN continues to invest in new electric frac equipment (140K HHP by mid-'24), dual fuel upgrades (~80% of active fleet to be natural gas capable by mid-'24) & natural gas fueling business. We think all of this should help PTEN deliver relatively strong results in its Completions business in 2024, even in a flat to slightly softer US frac market.

## Reit. Buy on FCF resilience and solid shareholder returns

PTEN's strong Drilling, Completions and Drill Bits (Ultrerra) franchise should allow it to deliver around \$1.5bn in Adj. EBITDA & \$650mm in FCF in '24E. Our updated '24E/'25E Adj. EBITDA of \$1.52/\$1.75bn is -4%/-0% vs. Cons; our '24E/'25E FCF of \$650/\$850mm is -2%/+4% vs. Cons. Our DCF-based PO of \$14.50 (4.6x/4.0x '24E/'25E Adj. EBITDA) is unchanged. We reiterate Buy on PTEN on – 1) strong and resilient FCF despite a flat to modestly weaker US activity environment. 2) accelerated and very strong cash returns to shareholders, including a 2.7% annualized dividend yield, and 3) inexpensive valuation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.66	1.12	0.66	1.17	1.72
EPS Change (YoY)	NM	69.7%	-41.1%	77.3%	47.0%
Consensus EPS (Bloomberg)			0.95	1.27	1.61
DPS	0.20	0.32	0.32	0.34	0.35
Valuation (Dec)					
P/E	18.3x	10.8x	18.3x	10.3x	7.0x
Dividend Yield	1.7%	2.7%	2.7%	2.8%	2.9%
EV / EBITDA*	8.9x	5.2x	4.0x	3.4x	3.1x
Free Cash Flow Yield*	2.6%	7.9%	13.1%	17.1%	18.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

20 February 2024

## Equity

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## Stock Data

Price	12.06 USD
Price Objective	14.50 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-7
52-Week Range	9.70 USD - 16.18 USD
Mkt Val (mn) / Shares Out (mn)	4,957 USD / 411.0
Free Float	97.7%
Average Daily Value (mn)	84.60 USD
BofA Ticker / Exchange	PTEN / NAS
Bloomberg / Reuters	PTEN US / PTEN.OQ
ROE (2024E)	5.6%
Net Dbt to Eqty (Dec-2023A)	21.7%
ESGMeter <sup>TM</sup>	Medium

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Reit. / Cons. = Reiterate / Consensus

M&amp;A = Merger &amp; Acquisition

DCF / FCF = Discounted Cash Flow / Free Cash Flow

Incl. / Adj. = Including / Adjusted

D&amp;C = Drilling &amp; Completion

m-cap = market capitalization

HHP = Hydraulic Horsepower

US = United States

Mgmt. = Management

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Timestamp: 20 February 2024 12:01AM EST

# iQprofile<sup>SM</sup> Patterson-UTL Energy

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.1%	8.0%	4.9%	7.7%	10.0%
Return on Equity	8.8%	9.7%	5.6%	9.4%	12.7%
Operating Margin	7.2%	10.4%	6.4%	9.1%	10.8%
Free Cash Flow	129	390	650	850	930

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	3.9x	3.2x	5.2x	3.9x	3.2x
Asset Replacement Ratio	0.9x	0.8x	0.6x	0.7x	0.7x
Tax Rate	8.6%	19.8%	24.0%	24.5%	24.5%
Net Debt-to-Equity Ratio	41.6%	21.7%	22.0%	19.1%	14.5%
Interest Cover	5.0x	8.3x	6.9x	9.8x	12.4x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,648	4,146	6,201	6,701	7,203
% Change	90.7%	56.6%	49.5%	8.1%	7.5%
Gross Profit	791	1,335	1,758	1,979	2,165
% Change	183.9%	68.8%	31.7%	12.6%	9.4%
EBITDA	675	1,165	1,520	1,750	1,930
% Change	262.6%	72.7%	30.4%	15.2%	10.3%
Net Interest & Other Income	(43)	(45)	(51)	(56)	(56)
<b>Net Income (Adjusted)</b>	<b>144</b>	<b>316</b>	<b>263</b>	<b>419</b>	<b>545</b>
<b>% Change</b>	<b>NM</b>	<b>118.5%</b>	<b>-16.7%</b>	<b>59.3%</b>	<b>30.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	144	316	263	419	545
Depreciation & Amortization	484	735	1,122	1,140	1,151
Change in Working Capital	(87)	(67)	(78)	(25)	(50)
Deferred Taxation Charge	7	52	41	35	19
Other Adjustments, Net	18	(29)	17	54	54
Capital Expenditure	(437)	(616)	(716)	(772)	(789)
<b>Free Cash Flow</b>	<b>129</b>	<b>390</b>	<b>650</b>	<b>850</b>	<b>930</b>
<b>% Change</b>	<b>NM</b>	<b>201.6%</b>	<b>66.6%</b>	<b>30.8%</b>	<b>9.4%</b>
Share / Issue Repurchase	(70)	(201)	(446)	(560)	(602)
Cost of Dividends Paid	(43)	(100)	(126)	(119)	(111)
Change in Debt	(20)	377	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	138	193	234	405	623
Trade Receivables	566	960	988	1,066	1,156
Other Current Assets	126	333	349	373	402
Property, Plant & Equipment	2,261	3,314	2,908	2,541	2,179
Other Non-Current Assets	54	2,610	2,647	2,647	2,647
<b>Total Assets</b>	<b>3,144</b>	<b>7,411</b>	<b>7,127</b>	<b>7,032</b>	<b>7,007</b>
Short-Term Debt	0	12	12	12	12
Other Current Liabilities	551	1,038	1,005	1,082	1,151
Long-Term Debt	831	1,225	1,225	1,225	1,225
Other Non-Current Liabilities	96	323	328	363	382
<b>Total Liabilities</b>	<b>1,478</b>	<b>2,598</b>	<b>2,570</b>	<b>2,683</b>	<b>2,770</b>
<b>Total Equity</b>	<b>1,666</b>	<b>4,812</b>	<b>4,557</b>	<b>4,350</b>	<b>4,236</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,144</b>	<b>7,411</b>	<b>7,127</b>	<b>7,032</b>	<b>7,007</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Oil Services

## Company Description

Patterson-UTL is a leading provider of drilling and completion services to oil and natural gas exploration and production companies in the United States and other select countries, including contract drilling services, integrated well completion services and directional drilling services in the United States, and specialized bit solutions in the United States, Middle East and many other regions around the world.

## Investment Rationale

PTEN has a strong US Land Drilling franchise, now including Ultrera drill bits, which should benefit from the expected recovery in US Land activity in 2024-25. We also like the upside potential from (1) legacy-NEX improving legacy-PTEN's frac profitability, (2) expected PTEN & NEX SG&A synergies. All of this is expected to drive strong FCF, which makes PTEN attractively valued vs. its Drilling & Pumping peers despite near term risks.

## Stock Data

Average Daily Volume 7,015,145

## Quarterly Earnings Estimates

	2023	2024
Q1	0.46A	0.14E
Q2	0.42A	0.16E
Q3	0.18A	0.19E
Q4	0.19A	0.17E



## Price objective basis & risk

### Patterson-UTi Energy (PTEN)

Our PO of \$14.50 is derived from our discounted cash flow valuation, which we believe is a better method to value PTEN 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 -3.0% due to potential disruptions from the energy transition while using an 9.1% WACC.

Downside risks to our price objective are 1) slower than expected recovery in US Land drilling activity, 2) weaker than expected US pressure pumping S/D balance and pricing, 3) management's inability in efficiently integrating recent Nextier & Ulterra acquisitions, 4) lower than the expected \$200mm synergy with NEX, 5) higher than expected capex.

## Analyst Certification

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### US - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Atlas Energy Solutions	AESI	AESI US	Saurabh Pant
	Baker Hughes Co.	BKR	BKR US	Saurabh Pant
	ChampionX Corp.	CHX	CHX US	Saurabh Pant
	Chart Industries	GTLS	GTLS US	Saurabh Pant
	Halliburton Company	HAL	HAL US	Saurabh Pant
	Helmerich & Payne	HP	HP US	Saurabh Pant
	NOV Inc.	NOV	NOV US	Saurabh Pant
	Patterson-UTi Energy	PTEN	PTEN US	Saurabh Pant
	SLB	SLB	SLB US	Saurabh Pant
	TechnipFMC plc	FTI	FTI US	Saurabh Pant
	Weatherford International	WFRD	WFRD US	Saurabh Pant
<b>NEUTRAL</b>				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
<b>UNDERPERFORM</b>				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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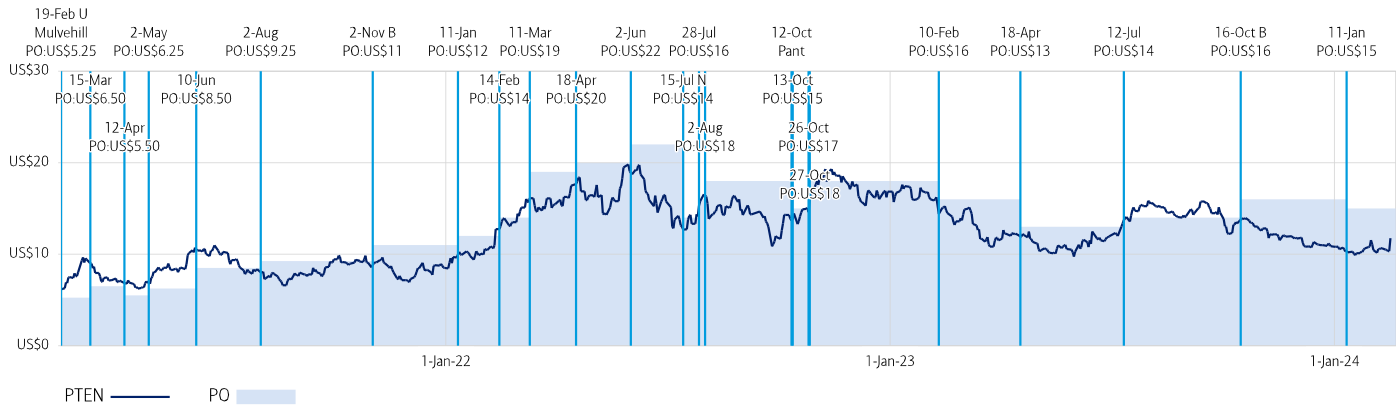
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### Patterson-UTI Energy (PTEN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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