

## Halliburton Company

## Resilient NAM and Strong INTL

Reiterate Rating: BUY | PO: 43.00 USD | Price: 35.30 USD

## Resilient NAM and INTL growth at an attractive valuation

HAL's NAM revenue grew 9% YoY despite the rig count declining 4% YoY in 2023. The company now expects its NAM revenue to be flattish YoY with rig count likely down 5-6% YoY in '24. This is in large part attributable to NAM E&Ps, & in turn OFS, maintaining capital discipline i.e., not chasing the highs/lows of commodity prices, with an effort to boost through cycle returns and FCF. This has helped to significantly reduce the volatility inherent in short-cycle NAM OFS. In INTL, we continue to think that HAL's organic as well as M&A efforts over the recent past have made it better positioned than ever to fully participate in ongoing INTL/Offshore expansion. HAL now boasts, strong EBITDA margins and 20% Return on Capital (both highest since 2011) plus strong FCF (highest since 2006, with 2023 EBITDA to FCF conversion of 41% ex-asset sales vs. average of 24% in 2010-19). We tweak our 2024E/25E EBITDA by -1%/-1% (-1%/in-line vs. Cons) to \$5.41/\$6.05bn. On valuation, we note that HAL is trading at 10.4x/8.9x our 2024E/25E EPS of \$3.39/\$3.95, which is a 30%/24% discount vs. the average of its FY1/FY2 P/E multiple over 2010-14. Thus, we reiterate our \$43 PO & Buy rating on HAL's strong financial performance and resilient/robust NAM/INTL outlook at an attractive valuation.

## Mgmt. sees NAM flattish YoY on both revenue and margin

HAL expects its NAM revenue & margin to be flattish YoY in 2024. This would be highly commendable in an environment where NAM rig count is likely down 5-6% YoY in 2024. However, our \$5.41bn in 2024E EBITDA assumes HAL's NAM revenue down 2-3% YoY. We note 80-90% of HAL's US Land business is tied to public E&Ps, which are at about maintenance level of activity, and thus unlikely to reduce activity in the current macro. Thus, we think there is only a modest downside risk to HAL's 2024 estimates on NAM.

## HAL offers strong FCF and cash return to shareholders

HAL generated \$2.3bn in FCF (including \$195mm in asset sales) in 2023. We think HAL would grow its FCF by 15% YoY to \$2.6bn in 2024. Note HAL returned 60% i.e., \$1.4bn of its FCF in 2023 to shareholders in buybacks (\$800mm) & dividend (\$576mm), besides retiring \$300mm of debt. Mgmt. said today it expects to return ≥60% of FCF again to its shareholders in 2024. Assuming 60-65% of its 2024-25 FCF is returned to shareholders, HAL would have returned 10% of its current market-cap to shareholders in 2024E-25E.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.17	3.13	3.39	3.95	4.36
GAAP EPS	1.73	2.92	3.39	3.95	4.36
EPS Change (YoY)	100.9%	44.2%	8.3%	16.5%	10.4%
Consensus EPS (Bloomberg)			3.43	3.94	4.17
DPS	0.48	0.64	0.68	0.76	0.80
Valuation (Dec)					
P/E	16.3x	11.3x	10.4x	8.9x	8.1x
GAAP P/E	20.4x	12.1x	10.4x	8.9x	8.1x
Dividend Yield	1.4%	1.8%	1.9%	2.2%	2.3%
EV / EBITDA*	9.2x	7.3x	6.9x	6.1x	5.7x
Free Cash Flow Yield*	3.9%	6.6%	7.6%	9.2%	10.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

23 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E DPS	0.72	0.68

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## Stock Data

Price	35.30 USD
Price Objective	43.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-7
52-Week Range	27.84 USD - 43.85 USD
Mkt Val (mn) / Shares Out (mn)	31,664 USD / 897.0
Free Float	90.6%
Average Daily Value (mn)	243.08 USD
BofA Ticker / Exchange	HAL / NYS
Bloomberg / Reuters	HAL US / HALN
ROE (2024E)	29.8%
Net Dbt to Eqty (Dec-2023A)	56.9%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

HAL = Halliburton

NAM / INTL / OFS = North America / International / Oil Field Services

E&amp;P = Exploration &amp; Production

M&amp;A = Merger &amp; Acquisition

Mgmt. / Cons / FCF = Management / Consensus / Free Cash Flow

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Timestamp: 23 January 2024 08:50PM EST

# iQprofile<sup>SM</sup> Halliburton Company

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.5%	17.6%	17.1%	17.8%	17.6%
Return on Equity	26.8%	32.6%	29.8%	29.8%	28.1%
Operating Margin	15.1%	17.7%	17.8%	18.6%	19.1%
Free Cash Flow	1,231	2,079	2,420	2,900	3,185

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.2x	1.3x	1.3x	1.3x
Asset Replacement Ratio	1.1x	1.4x	1.3x	1.4x	1.4x
Tax Rate	21.0%	20.3%	21.2%	21.5%	22.0%
Net Debt-to-Equity Ratio	70.0%	56.9%	40.3%	25.0%	12.5%
Interest Cover	8.2x	11.3x	12.7x	14.3x	15.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	20,297	23,018	24,271	26,400	27,728
% Change	32.7%	13.4%	5.4%	8.8%	5.0%
Gross Profit	4,253	5,299	5,658	6,279	6,690
% Change	45.7%	24.6%	6.8%	11.0%	6.5%
EBITDA	4,013	5,081	5,410	6,050	6,500
% Change	47.8%	26.6%	6.5%	11.8%	7.4%
Net Interest & Other Income	(555)	(507)	(480)	(484)	(488)
<b>Net Income (Adjusted)</b>	<b>1,967</b>	<b>2,827</b>	<b>3,008</b>	<b>3,448</b>	<b>3,726</b>
<b>% Change</b>	<b>103.8%</b>	<b>43.7%</b>	<b>6.4%</b>	<b>14.6%</b>	<b>8.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,967	2,827	3,008	3,448	3,726
Depreciation & Amortization	940	998	1,083	1,137	1,194
Change in Working Capital	(955)	(511)	(499)	(277)	(279)
Deferred Taxation Charge	31	54	7	(111)	(96)
Other Adjustments, Net	259	90	271	282	294
Capital Expenditure	(1,011)	(1,379)	(1,450)	(1,580)	(1,654)
<b>Free Cash Flow</b>	<b>1,231</b>	<b>2,079</b>	<b>2,420</b>	<b>2,900</b>	<b>3,185</b>
<b>% Change</b>	<b>10.7%</b>	<b>68.9%</b>	<b>16.4%</b>	<b>19.8%</b>	<b>9.8%</b>
Share / Issue Repurchase	(250)	(800)	(1,019)	(1,172)	(1,329)
Cost of Dividends Paid	(435)	(576)	(601)	(660)	(679)
Change in Debt	(1,242)	(305)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,346	2,264	3,264	4,516	5,862
Trade Receivables	4,627	4,860	5,495	5,788	6,152
Other Current Assets	3,979	4,419	4,872	5,035	5,229
Property, Plant & Equipment	4,348	4,900	5,067	5,325	5,615
Other Non-Current Assets	7,955	8,240	8,240	8,240	8,240
<b>Total Assets</b>	<b>23,255</b>	<b>24,683</b>	<b>26,938</b>	<b>28,904</b>	<b>31,098</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	5,345	5,608	6,197	6,376	6,654
Long-Term Debt	7,928	7,636	7,636	7,636	7,636
Other Non-Current Liabilities	2,005	2,006	2,260	2,403	2,569
<b>Total Liabilities</b>	<b>15,278</b>	<b>15,250</b>	<b>16,093</b>	<b>16,415</b>	<b>16,859</b>
<b>Total Equity</b>	<b>7,977</b>	<b>9,433</b>	<b>10,845</b>	<b>12,489</b>	<b>14,239</b>
<b>Total Equity &amp; Liabilities</b>	<b>23,255</b>	<b>24,683</b>	<b>26,938</b>	<b>28,904</b>	<b>31,098</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Oil Services

## Company Description

Halliburton provides a suite of evaluation, drilling, production and completion services worldwide. The company is the third largest provider of oil services by market cap and the #1 pressure pumping services provider worldwide. Revenues in 2022 totaled \$20.3bn and EBITDA was \$4.0bn.

## Investment Rationale

We rate HAL a Buy. We continue to view HAL's US shale franchise as one of the eventual winners over the long term. HAL's Int'l franchise is set to outpace market growth on organic and M&A led investment in several Int'l focused product lines last cycle. Further, cost cutting has reset cyclical margin expectations higher, while digital penetration should lead to better FCF conversion in the coming cycle.

## Stock Data

Average Daily Volume 6,885,981

## Quarterly Earnings Estimates

	2023	2024
Q1	0.72A	0.74E
Q2	0.77A	0.80E
Q3	0.79A	0.89E
Q4	0.86A	0.96E

## Price objective basis & risk

### Halliburton Company (HAL)

Our PO of \$43.00 is derived from our discounted cash flow valuation, which we believe is a better method to value HAL 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 6.8% WACC.

Risks to our price objective are global economic weakness, lower O&G prices, reduced upstream spending, regulatory changes, oversupply and technical and operational issues. Company-specific risk is increasing competition in its markets that may permanently result in lower margins, returns and, ultimately valuation premium.

## Analyst Certification

I, Saurabh Pant, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### 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

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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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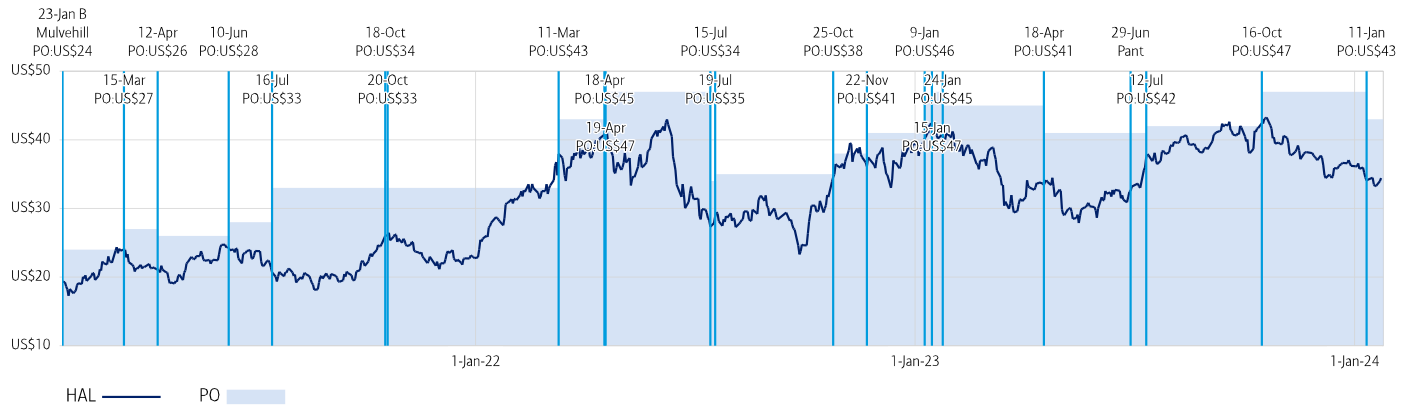
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### Halliburton Company (HAL) Price Chart



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%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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