

Weatherford International

Can't stop, won't stop the Weatherphoenix

Reiterate Rating: BUY | PO: 123.00 USD | Price: 96.67 USD

Continued strong execution, & s/h returns coming in focus

WFRD mgmt. continues to run a very strong business focused on margin expansion and FCF generation while still outperforming its big 3 peers in INTL growth. To wit, WFRD grew its INTL revenue 48% in 2021-23 vs. the average of Big 3 OFS +36% in the same period. At the same time, WFRD's Adj. EBITDA margin widened to 23.1% in '23 (set to reach 25% by YE24), only modestly below SLB's 24.5% and higher than HAL's 22.1% & BKR's 16.9% (OFSE). Of note, WFRD converted 55% of its 2023 Adj. EBITDA to FCF, i.e., above the 45-54% range for its Big 3 OFS peers. Additionally, WFRD spent only 4.1% of its revenue in capex in '23 (5% in '24E), which helped lift its ROIC to 27.2% in 2023. We raise our '24E/'25E Adj. EBITDA for WFRD by 6%/4% to \$1.40bn/\$1.53bn (+2%/in line with Cons). We note WFRD has only \$97mm outstanding on its secured notes, with net leverage down to 0.7x at YE23. This should allow it to initiate s/h cash returns by mid-'24, attracting more/new investors to an already compelling story. We increase our DCF-based PO moves up to \$123 (7.3x '24E EBITDA) from \$120 on higher estimates, partially offset by slightly higher WACC (7.5% vs. prior 7.3%) on higher cost of debt. Reit. Buy and top mid-cap pick.

Negligible impact from Saudi move to halt oil expansion

WFRD has been under pressure since [last week's surprise Saudi announcement](#) (see report) to halt its oil MSC expansion plan. However, WFRD believes this will have a negligible impact on its projections. Mgmt. noted WFRD's position in Saudi is mostly onshore, and while offshore represents a tangible opportunity, it is not one that it has factored significantly into its multi-year outlook. We think Saudi is about 7.5-8% of WFRD's 2023 revenue and we note all but two offshore projects in Saudi continue to move forward as previously planned.

Reiterate Buy and top 2024 mid-cap pick, raise PO to \$123

WFRD has continued to beat and raise expectations with Cons '24E Adj. EBITDA now up 26% and Cons '24E FCF now up 16% over the past 12 months. We see further upside to WFRD's FCF generation as its profit grows, cash interest expense falls and working capital intensity continues to decline (partially offset by higher cash taxes and higher capex). We reiterate our Buy rating and top 2024 OFS mid-cap pick on: (1) large exposure to still very strong INTL growth outlook; (2) strong margins, FCF generation and ROIC; (3) clear path to initiation of s/h distributions by mid-'24; and (4) cheap relative valuation – WFRD trades at a 22% discount to the average of Big 3 OFS peers on EV to Cons '24E EBITDA.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.86	5.65	7.11	8.55	9.09
EPS Change (YoY)	NM	557.0%	25.8%	20.3%	6.3%
Consensus EPS (Bloomberg)			6.70	8.08	8.78
DPS	0	0	0	0.43	0.45
Valuation (Dec)					
P/E	112.4x	17.1x	13.6x	11.3x	10.6x
Dividend Yield	0%	0%	0%	0.4%	0.5%
EV / EBITDA*	9.6x	6.6x	5.6x	5.1x	5.0x
Free Cash Flow Yield*	3.1%	8.9%	7.7%	9.1%	9.5%

* For full definitions of *IQmethod*SM measures, see page 4.

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12658159

Timestamp: 09 February 2024 07:34PM EST

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	120.00	123.00

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Stock Data

Price	96.67 USD
Price Objective	123.00 USD
Date Established	9-Feb-2024
Investment Opinion	C-1-9
52-Week Range	51.46 USD - 102.65 USD
Mkt Val (mn) / Shares Out (mn)	6,991 USD / 72.3
Free Float	97.8%
Average Daily Value (mn)	90.55 USD
BofA Ticker / Exchange	WFRD / NAS
Bloomberg / Reuters	WFRD US / WFRD.OQ
ROE (2024E)	43.3%
Net Dbt to Eqty (Dec-2023A)	88.9%
ESGMeter™	NLA

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OFS = Oilfield Services
INTL = International
Cons = Consensus

Adj. = Adjusted
s/h = shareholder

DCF = Discounted Cash Flow
WACC = Weighted Average Cost of Capital

Reit. = Reiterate
FCF = Free Cash Flow
EV = Enterprise Value

ROIC = Return on Invested Capital

iQprofileSM Weatherford International

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.2%	22.0%	20.8%	21.1%	18.9%
Return on Equity	11.8%	56.6%	43.3%	34.5%	26.7%
Operating Margin	9.7%	16.0%	18.0%	19.2%	19.8%
Free Cash Flow	217	623	540	637	665

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	5.6x	2.0x	1.6x	1.5x	1.5x
Asset Replacement Ratio	0.4x	0.6x	0.8x	0.9x	1.0x
Tax Rate	50.0%	11.3%	31.0%	31.0%	31.0%
Net Debt-to-Equity Ratio	206.2%	88.9%	18.5%	-15.7%	-34.6%
Interest Cover	2.3x	6.7x	10.0x	12.6x	13.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,331	5,135	5,708	6,090	6,235
% Change	18.8%	18.6%	11.2%	6.7%	2.4%
Gross Profit	1,660	2,075	2,337	2,515	2,606
% Change	21.3%	25.0%	12.6%	7.6%	3.6%
EBITDA	817	1,186	1,400	1,530	1,575
% Change	43.1%	45.2%	18.0%	9.3%	3.0%
Net Interest & Other Income	(244)	(312)	(239)	(222)	(223)
Net Income (Adjusted)	62	417	519	624	663
% Change	NM	572.6%	24.5%	20.2%	6.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	87	449	545	655	697
Depreciation & Amortization	349	327	335	322	306
Change in Working Capital	(85)	(3)	(103)	(63)	(32)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(2)	59	48	28	4
Capital Expenditure	(132)	(209)	(285)	(305)	(310)
Free Cash Flow	217	623	540	637	665
% Change	-8.4%	187.1%	-13.3%	17.9%	4.4%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	NA	NA	NA	(31)	(33)
Change in Debt	(203)	(378)	(375)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,112	1,063	1,222	1,843	2,490
Trade Receivables	989	1,216	1,365	1,443	1,475
Other Current Assets	942	1,066	1,178	1,236	1,255
Property, Plant & Equipment	918	957	1,027	1,115	1,191
Other Non-Current Assets	759	719	579	459	372
Total Assets	4,720	5,021	5,370	6,096	6,782
Short-Term Debt	45	168	45	168	168
Other Current Liabilities	1,425	1,698	1,856	1,929	1,948
Long-Term Debt	2,203	1,715	1,450	1,340	1,340
Other Non-Current Liabilities	496	518	543	521	490
Total Liabilities	4,169	4,099	3,893	3,959	3,946
Total Equity	551	922	1,477	2,137	2,836
Total Equity & Liabilities	4,720	5,021	5,370	6,096	6,782

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Oil Services

Company Description

Weatherford (WFRD) is a multinational provider of solutions, technology, and services to the global Oil & Gas Industry. The company was incorporated in 1987 and current operates in approximately 75 countries with 18,000 employees. WFRD delivers innovative energy services that integrate proven technologies with advanced digitalization to create sustainable offerings for maximized value and return on investment.

Investment Rationale

We have a Buy rating on WFRD as we see upside from (1) continued revenue & margin expansion led by Int'l markets, (2) Balance Sheet optimization, and (3) our expectation of WFRD initiating shareholder distributions by mid-2024.

Stock Data

Average Daily Volume

936,699

Quarterly Earnings Estimates

	2023	2024
Q1	0.97A	1.45E
Q2	1.12A	1.66E
Q3	1.66A	1.89E
Q4	1.89A	2.10E

Price objective basis & risk

Weatherford International (WFRD)

Our PO of \$123.00 is derived from our discounted cash flow valuation, which we think is a 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 7.5% 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.

Analyst Certification

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US - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
NEUTRAL				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
UNDERPERFORM				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant



iQmethodSM 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 & 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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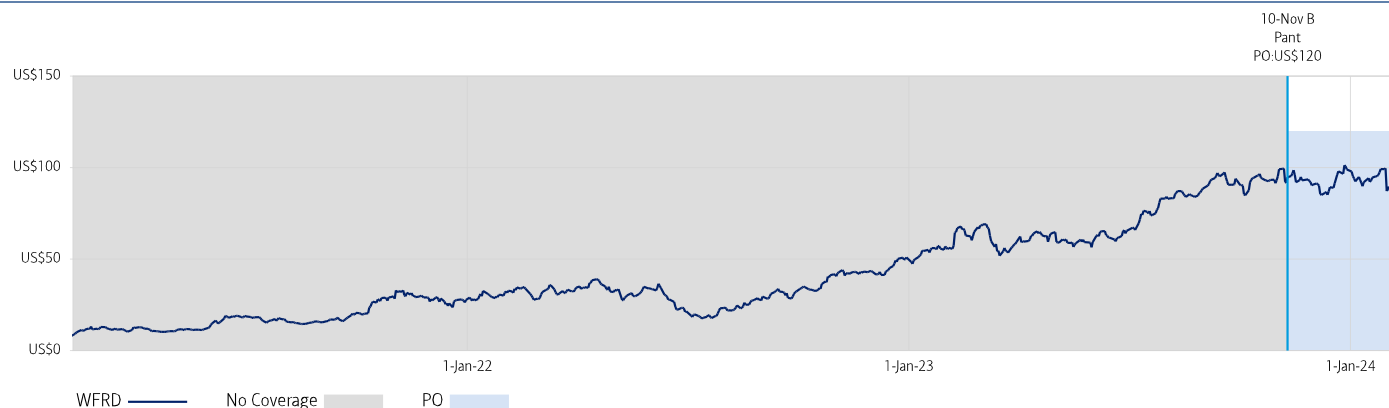
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Weatherford (WFRD) Price Chart



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 ^{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
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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