Weatherford (WFRD)
Saber Zohir · endpt.co
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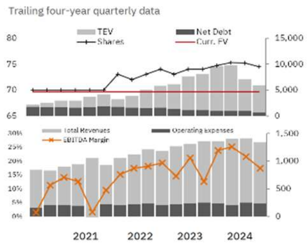
$40m capacity · 0.7-2.1x MOIC · 6-18 months
$55 · $4b mc · $4.7b EV · $5.1b rev · $1.1b EBITDA
Drivers: OFS M&A · drilling activity · oil prices

WFRD provides critical drilling technology and services that optimize well performance and reduce operational costs for major E&Ps and national oil companies worldwide. New management has rationalized operations after emerging from Ch 11, improving margins, and returning capital through delevering, a dividend, and buybacks. At $4.7b EV and ~9% FCF yield, it's an acquisition target - WFRD's directors led multiple M&A from other boards in 2024.



Hypotheses & Validation Paths

M&A potential. Neal Goldman (board) in Greenwich. Read board-associated 424Bs for merger history (DO, NE, CHK).

WFRD's MPD / artificial lift offerings give them a sustainable edge. MENA O&G procurer. Competitor IRs & regional sales directors. Company IR for contract details. LBRT reference.

Mexico receivables are not at risk. WFRD CFO.

February price drop might be due to non-fundamental short flows. Energy pod analysts. Borrow desks.

Perception Gap

Lack of underwriting. Steamboat, Atlantic & Greenlight are the only active investors. Equity analysts might miss post-reorg deleverage. S/G positions usually reprice on an endorsement.

Passive ownership. High percentage of owners are ETFs that have reflexive trading mechanisms dissociated with value.

Covenant restrictions. Restricts stock repurchases; only remaining note became redeemable in Oct 2024.

Possible pod-short. Borrow dropped 66% in the last week of February (per iborrowdesk) corresponding with a ~25% no catalyst price drop into thin volume. LBRT & XPRO exhibited the exact same pattern, unlike either the majors (HAL, SLB, BKR) or the minors (PTEN, VAL, PUMP, ACDC).

Asset Dynamics

Economics. Growth has come from cost-conscious margin expansion and sales into MENA and Latin America. Contracts are usually for multiple years. WFRD reports across four geographies and three segments:

Drilling and Evaluation (DRE): Active during initial well development - improves exploration and drilling efficiency. Driver: Number of active drilling rigs.

Well Construction & Completions (WCC): Used after drilling to prepare wells for production - installs well infrastructure and ensures integrity. Driver: Drilled uncompleted wells.

Production and Intervention (PRI): Operates through production and maintenance - optimizes and extends well life. Driver: Producing well count; intervention frequency.

Operating History

	2024	2023	2022	2021
Product (GM %)	2120 (27%)	1956 (27%)	1633 (18%)	1292 (10%)
Service (GM %)	3393 (40%)	3179 (38%)	2698 (37%)	2353 (34%)
DRE (EBITDA %)	1682 (28%)	1536 (27%)	1328 (24%)	1066 (17%)
WCC (EBITDA %)	1976 (29%)	1800 (25%)	1521 (20%)	1353 (19%)
PRI (EBITDA %)	1452 (22%)	1472 (22%)	1395 (19%)	1127 (17%)
North America	1,046	1,068	1,104	896
Latin America	1,393	1,387	1,062	814
Europe / Russia / Africa	951	865	764	737
MENA	2,123	1,815	1,401	1,198
Revenue	5,513	5,135	4,331	3,546
Gross Profits	1,908	1,740	1,311	830
Operating Income	938	820	412	116
OCF	792	832	349	322
Interest	102	123	179	260
D&A	343	327	349	440
Capex	299	209	132	85

Differentiators. Leader in managed pressure drilling and artificial lift systems. Analytics focus shows in improved service margins, recent hires with 20+ years BP/Chevron data experience, and analytics-focused acquisitions.

Industry. O&G capex rationalization, declining well rates, and increased drilling efficiency have reduced demand for oil & gas services. We're unlikely to see the pricing swings and consequent capital destruction of the past two cycles. Structural advantages will come from technical IP and customer relationships as opposed to commodified bare metal rentals – capital conscious operators like LBRT and WFRD will consolidate profitable share in downcycles.

Issues. Pemex (Mexico) is a 10% revenue customer that's expected to shrink 30-50% in 2025. They've been notoriously late on payments, and now account for 25% of the $1.2b receivables up from 10% last year – a WC drag on cash. WFRD has resorted to third-party CDS financing to get liquidity. Separately, capex was lower than D&A between 2021-23, which might indicate older equipment.

Capital Decisions & Management

Allocation. They've maintained opex and capex discipline, keeping SGA steady at around $800m as gross profits increased. Of the $1.8b FCF generated, they spent $1.6b delevering. Capex at $300m approximates D&A at 5% of revenue. They currently pay $1/share ($73m) as a dividend and have a $500m share repurchase authorized.

Capitalization. $1.6b 8.625% due 2030 is their only debt - became callable at 104.3 on Oct 24, 2024 (redeemed $4m in Q4). Expect them to reduce this expensive note in 2025; comps borrow under 6.5%. WFRD has $1b borrowing capacity, $916m cash and 72.8m shares outstanding.

Leadership. Girish Saligram took over as CEO in Oct 2020 – he joined Weatherford in 2016 and was COO at Exterran before. He's delivered on the efficiencies he pitched and gets paid on adjusted EBITDA and FCF metrics. CFO Arun Mitra came from Mitsubishi's power gen business and replaced a CLMT/FEAM associated financier. The directors are connected to managers (Brigade, Och-Ziff, Carronade) and to O&G undergoing M&A (CHK, DO, TALO, NE).

Security Valuation

3-5 year contracts and a high caliber management/board are the basis for trust in WFRD projections. They currently estimate $5.1-5.35b revenues, $1.2-1.35b EBITDA at 100-200 bps above their current 37.9% FCF conversion. This provides a baseline of $465m-$538m FCF.

Private value. NOV or BKR are potential corporate acquirors – but I need to speak to people to understand the deal dynamics in this sector. SLB's all-stock acquisition of CHX implies an $8.8b market cap for WFRD ($120/s), but this reference deal might be blocked.

Comps (1y chg)	Rev	EBITDA	Gross %	EBITDA %	FCF / Asset	Cash	TEV	EV/E (3y)	P/E (3y)	P/TBV	EV/EBITDA
WFRD (-25%)	5,513	1,210	34%	22%	11%	916	4,649	4.7	12.0	4.1	3.8
Oil & Gas Equip	105,604	20,220	21%	19%	7%		157,988	7.8		4.6	7.8
HAL (-8%)	22,944	4,793	19%	21%	9%	2,618	28,164	6.4	9.8	2.9	5.9
SLB (10%)	36,300	7,659	20%	21%	9%	4,669	65,916	9.1	14.0	12.5	8.6
BKR (8%)	27,829	4,600	21%	17%	5%	3,364	47,016	14.3	30.4	6.3	10.2
LBRT (-23%)	4,315	933	34%	22%	5%	20	2,896	3.0	6.0	1.3	3.1
NOV (5%)	8,869	1,236	24%	14%	8%	1,230	7,024	7.4	9.7	1.4	5.7
XPRO (-22%)	1,713	274	13%	16%	1%	183	1,056	5.0	402.5	1.4	3.9
CHX (10%)	3,634	725	33%	20%	13%	508	5,916	8.6	21.4	6.7	8.2

Public value. A return of capital framework is best here as they'll delever then reduce share count. Relative comps would not align well with WFRD's current operating structure and regional focus; historical comps describe a different company and macro environment. The market currently prices stable cash flows under 3% and moderately unpredictable ones at 6-8%. This suggests a range of $5b-$8b ($83-109/s). From a forward EPS perspective, 8x on a range of $6-6.5 is a base of $48-52/s. Loss on Pemex receivables is $4/s; harder to handicap MENA decline as the unit economics of this business are unclear.

Expected value

	Probability	Outcome	Duration	Expected Value
Acquisition	25%	$100-$120	6-9 m	$27.5
Return of capital	50%	$80-$110	9-18 m	$47.5
Demand decline	25%	$40-$48	12 m +	$11
		$40-120	6-18 m	$86

Execution & Position Management

The skew on this trade looks interesting. I'd build a 100 bp position on my current work – 3 days at 10% $75m ADV. Increase once we establish a timeline / narrow the expected upside into M&A. Would look for structural shorts have similar exposure to MENA drilling, but a less differentiated, lower margin offering.

$40 ($3b) could be a max position price – below acquisition prices for sustainable OGS and accounts for MENA declines and Pemex (cannot hedge that idiosyncratic risk). Will lay out exit / revaluation decision points based on leading indicators on thesis fail / fundamental business changes based on my validation research.