



Nabors Industries Research

Description: Provides drilling and drilling-related services and technologies for land-based and offshore oil and natural gas wells

Ticker: NBR

Price: \$3.06

Market Cap: \$1.1B

Performance: -54% YTD

Analysis: NBR, like most drillers, are very tough to evaluate. Let's dig into what we found. First, and most importantly, when it comes to the drillers today it's all about the cash flow and the debt. When we look at NBR's chart it seems like there is significant doubt the company will survive with oil down in the \$50's. After examining the financials, there's definitely a lot of risk on the table. For example, the company has \$3.7B in debt, after subtracting cash on hand, they have net debt of \$3.3B. They redeemed \$303M of their outstanding 9.25% notes which were due in early 2019 so they don't have any maturities in 2019 which is good but they do have about \$670M due in late 2020 with another \$700M due in 2021 (see chart below).

Last quarter the company had \$637M in cash on hand but in their most recent quarter they are now down to \$389M. They do have about \$2.4B in total liquidity though as they have a \$2.035B revolver on tap. The picture is getting a little better, as in Q3 2017 the company's Net Debt / Trailing Twelve Months Adjusted Earnings Before Interest Taxes, Depreciation and Amortization (EBITDA) was 7.1x. In Q3 2018, it is now at 4.7x which is still high.

Since we're talking about the third quarter we might as well bring up the rest of the stats. They reported Q3 GAAP EPS of $-\$0.31$ missing estimates by $\$0.13$ on revenue of $\$779M$ (+17.7% Y/Y) missing by $\$19.61M$. In addition:

Sales by segment

- Drilling operations: $\$678M$ (+10%)
- Drilling solutions: $\$61M$ (+62%)
- Rig technologies: $\$64M$ (+27%)

- Average rigs working increased to 225.5 from 212

- Adjusted EBITDA margin expanded 420bps to 25.8%; reports narrower adjusted operating loss of $\$7.6M$ as compared to $\$74M$.

- Capex for Q3 was $\$120M$ and expects FY18 capex to be $\sim\$500M$, which implies fourth quarter expenditures of $\$170M$

A little bright side for Q4, NBR was expecting a payment from Saudi Aramco of $\$157M$ in late September but it wasn't received until October 4, 2018 so that will appear in the Q4 results.

These numbers weren't terrible but also keep in mind that in Q3 the average price of Brent was around $\$75.50$ and WTI was around $\$69.50$. With oil now down in the low $\$50$'s this could spell some serious cash burn going forward. Over the last twelve months, NBR's free cash flow is negative $-\$289M$... what will it be if oil stays lower? Don't get it wrong we like EPS but nothing beats cash flow in our opinion and that's what makes us nervous here.

We looked up and down their 10Qs and could not find anything about what their hedging strategy is. In other words, have they locked in any forward contracts when oil was in the $\$70$'s? That would surely make a big difference. Not going to lie, they don't have too many articles written about them or presentations like many other firms out there so it did make it really difficult to dig up info.

Our two cents, this has a ton of volume and liquidity as on Friday alone a whopping 84.67M shares traded hands. Like us, we got into RIG for a swing, this could def be a similar play as right now making an investment just seems far too risky. The nosedive its made over the last months is wild and has hit oversold on RSI, MFI, Williams %R as of Friday's close which could mean a big bounce is on the way.

We expected some oil cuts and that is exactly what we got as about 23 hours ago OPEC and their allies agreed to cut 1.2 million barrels a day from world markets and as a result US crude prices spiked nearly 5% to \$54 a barrel on the news.

	September 30, 2018	(In thousands)	December 31, 2017
6.15% senior notes due February 2018	\$	—	\$ 460,762
9.25% senior notes due January 2019		—	303,489
5.00% senior notes due September 2020		670,075	669,846
4.625% senior notes due September 2021		695,288	695,108
5.50% senior notes due January 2023		600,000	600,000
5.10% senior notes due September 2023		346,672	346,576
0.75% senior exchangeable notes due January 2024		445,426	429,982
5.75% senior notes due February 2025		800,000	—
Revolving credit facility		215,000	510,000
Commercial paper		—	40,000
Other		433	181
		3,772,894	4,055,944
Less: current portion		433	181
Less: deferred financing costs		35,188	27,997
	\$	3,737,273	\$ 4,027,766

Like we said, we think it's best to swing these guys. If you really believe oil is going to bounce back heavy in the next year or more, consider some LEAP options (long term options – we'll cover them in our lessons channel soon as we're a fan of them).