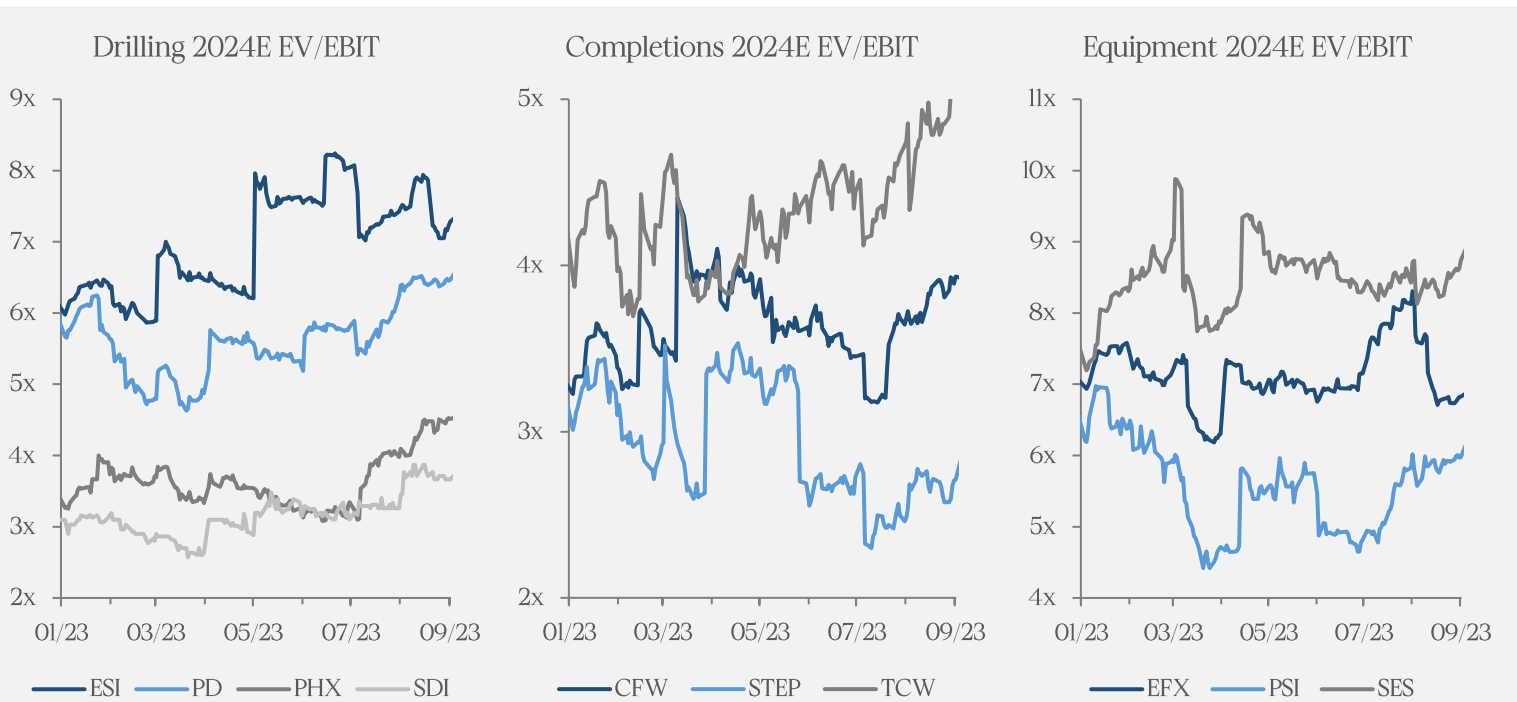


Daily Thought

More Differentiation in the Services – September 3rd, 2023

Happy Labour Day weekend to the North Americans – quick one today. While our focus is upstream producers, there are a handful of OFS names that still stand out as reasonably good businesses, and if you buy into the long term production cycle, then 4x EBIT is a steal. Within OFS you can express more specific view than the general “oil is going up” that most E&Ps get you, and we like that capacity. Ensign screens particularly cheap for the relative quality of the business, with some serious leverage, and complementary to Ensign, Precision screens cheap on an EBITDA, and a free cashflow basis, though with a better fleet and less leverage. While Ensign has a high (though manageable) interest expense of ~\$140m/yr, they still generate free cashflow in a low oil price environment (we consider 27.5k global operating days, and 150k service hours as a low case for Ensign, compared to 35.5k days, and 170k hours in 2022). While we see merit in the lower-spec contract drillers like Stampede, and Western, given their large fleets – you have to be really sold on the marginal, high cost scabby barrel coming back into the market rather than established E&Ps continuing to grow production, and thus feels like they inflect meaningfully higher above the \$90 mark. Directional driller PHX’s multiple has only expanded 15% this year on our 2024 \$100m EBIT outlook, which we would still view as cheap. We are also fans of Pason, and while not an exciting business – if you believe that the Canadian energy industry is going to exist for the next decade, and if you believe stimulated drilling will continue to happen (pretty safe bet), then 6x EBIT is a reasonable price. The issue with OFS is the day to day volatility – their cashflows are feast or famine – and for this reason we prefer tightly held names with management teams that run operations more like private businesses (buying their own stock) than torque being adjudicated daily in the market.



Source: Bloomberg, HTM Analysis