

Update Oil States International: Subdued outlook could improve rapidly

Company:	Oil States International (OIS)	Market Cap:	\$320mio
Industry:	Oil and gas equipment	Net Current Assets:	\$325mio (+\$124 mio debt)
Country:	US, worldwide	Revenue:	\$782mio
Date:	15 th August 2024	Operating cash flow:	\$70mio
Dividend:	-	Free cash flow:	\$40mio*
Entry:	\$280mio	Target:	\$400mio (+25%)

*Estimated guidance as of Q2 24

A mixed outlook for oil & gas U.S. onshore activity

With the earnings season mostly over, one can conclude that oil fields services (OFS) have had mixed results. On the one hand, offshore activity is the highest since 2014 and is expected to pick up in Q4 2024. On the other hand, US onshore activity is seeing rapid efficiency gains via 3 miles, and now even 4 miles laterals that can be achieved through consolidation amongst producers, i.e. adding acreage, as well as simul- and trimulfrac, which enables to drill two or three wells with a single rig. This has led to fewer labour, fewer services needed and brought production faster online. Chevron, Devon, Diamondback and Apache all boosted production forecast as a result of this¹. Most majors have signed off on final investment decisions for new upstream projects that were in the pipeline. At the same time, US natural gas producers have begun cutting production onshore and are looking to decrease production further into H2 2024. This has had an impact on completions, which declined by around 10-15%. Oil States International posted a very positive update, as they bought back \$2.4mio of own shares and \$11.5mio of their convertible debt, while maintaining \$40mio free cash flow guidance and an expected additional \$25mio cash to be received from the sale of their Houston facility by Q4 2024. If one deducted the net

¹ <https://www.reuters.com/business/energy/us-shale-companies-produce-more-crude-using-fewer-rigs-2024-08-13/>

current asset surplus from Oil States International's enterprise value (EV), the real EV would be around \$120mio – a valuation that remains very compelling.

US oil field services companies' Q2 2024 earnings

Company	Q2 earnings	Comment	Share price
Liberty Energy	18-Jul	North America slowing, but much slower than in the past	0%
Halliburton	19-Jul	North America down 5-8% for the year, same as YTD	-5%
SLB	19-Jul	International growth continues	2%
Weatherford	24-Jul	Middle East and Latin America strong, NA weak	-9%
Nabors Industries	24-Jul	Strongest international markets in 10 years	10%
Core Laboratories	25-Jul	Higher margins despite lower activity	10%
Expro	25-Jul	High growth in West Africa	1%
RPC	25-Jul	Sees completion services keeping up, Q3 improving	20%
Patterson-UTI	25-Jul	2025 should lead to higher natgas activity	5%
Baker Hughes	26-Jul	OPEC cut reversals will be key in developments ahead, strong LNG demand all the way to 2040	3%
Vallourec	26-Jul	Strong growth in international markets, current US activity is too low to sustain production levels	3%
Nov	26-Jul	Offshore activity remains high, more challenging picture in H2 North America	4%
Ranger Energy services	30-Jul	Pricing pressure for lower quality providers	13%
ProPetro	31-Jul	Slow to no growth environment, electric fleet is accelerating	7%
Archrock	31-Jul	Market cooled a bit in dry gas, inflation back to normal, order book into 2025 points to continued growth, less idle service capacity	-4%
Tenaris	01-Aug	North America continues to slow down	-9%
DMC Global	01-Aug	Muted activity continues in H2, but cost savings implemented to boost margins	4%
Technip Energies	01-Aug	LNG plants provide growth in Middle East, North America and East Africa, US moratorium might be lifted	-5%
USA Compression	06-Aug	Grid capacity constraints will remain and dual-fuel demand to continue rising	3%
Nine Energy Services	06-Aug	Increased whitespace across all basins in US	1%
ProFrac	08-Aug	Looking for cost efficiencies, need to see gas activity pick up, need for gas prices to pick up	-12%

Source: Individual company earnings results/calls

US oil & gas producing companies' Q2 2024 earnings

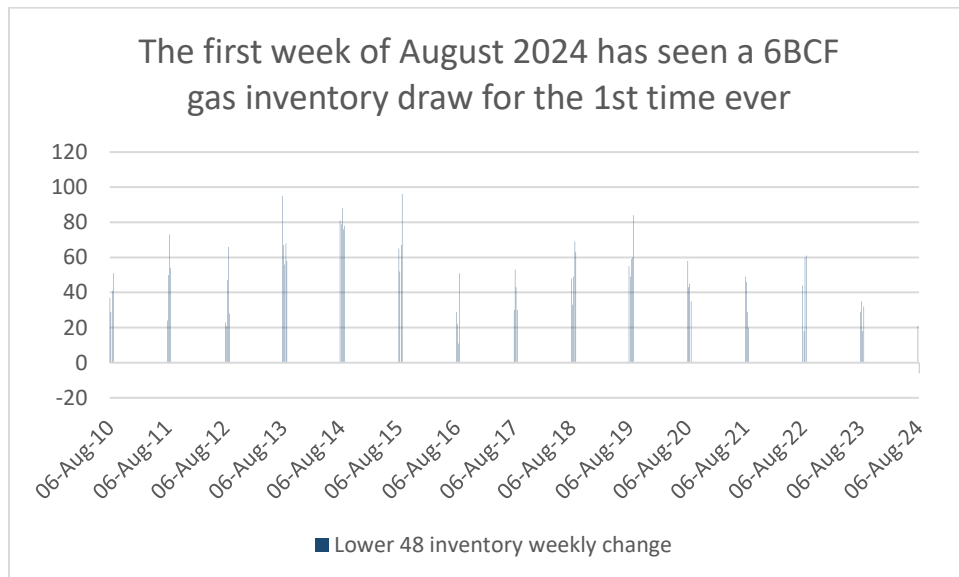
Company	Q2 earnings	Comment
Matador Resources	23-Jul-24	Efficiency via simul and trimulfrac
Repsol	24-Jul-24	Refining margins have narrowed, continued focus on renewable fuels
Equinor	24-Jul-24	Continue to high grade their oil and gas portfolio
TotalEnergies	25-Jul-24	Took final investment decisions on several upstream project to raise production by 2-3% per annum
Eni	26-Jul-24	Continues to divest non-core assets, raised production guidance
Chesapeake energy	29-Jul-24	Reduced capex and production expense by \$50mio and 8% respectively, higher Q3 capex, >30% production decline (Q4 vs Q1)
BP	30-Jul-24	Are going ahead with Gulf of Mexico Kaskida development
Ovintiv	30-Jul-24	Raised full year guidance
Hess	31-Jul-24	Bakken and Guyana resulted in strong production growth
Shell	01-Aug-24	Expects some changes in respect to US LNG moratorium
ConocoPhillips	01-Aug-24	Capex guidance at higher end of spectrum for 2024
Apache Corp	01-Aug-24	Outstanding permian basin production performance, raising outlook
Coterra Energy	01-Aug-24	Simul-frac efficiencies exceeding expectations, production beats high end of guidance, capex low end of guidance
Civitas Resources	01-Aug-24	4 miles laterals, focus on shareholder returns
ExxonMobil	02-Aug-24	2024 capex on top of the guided range
Chevron	02-Aug-24	Expanding global exploration acreage
EOG	02-Aug-24	Revised their output above the higher end of guidance amidst shale efficiency
Diamondback energy	06-Aug-24	Updated production guidance while lower capex guidance
Permian Resources	06-Aug-24	Increased mid-point production guidance
Devon energy	07-Aug-24	Set multiple drilling and completion records, improved production outlook
Chord Energy	07-Aug-24	Capex guidance unchanged, production increased
Occidental Petroleum	08-Aug-24	Permian and Gulf Of Mexico exceeded production guidance
Murphy Oil	08-Aug-24	Accelerated debt reduction and shareholder returns, maintained capex, production guidance

Source: Individual company earnings results/calls

The macro is also mixed, but there is a bright spot...

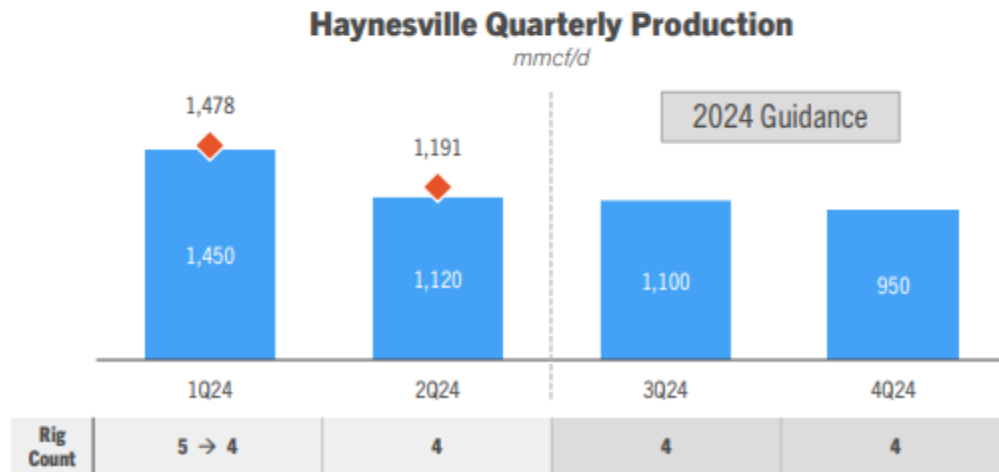
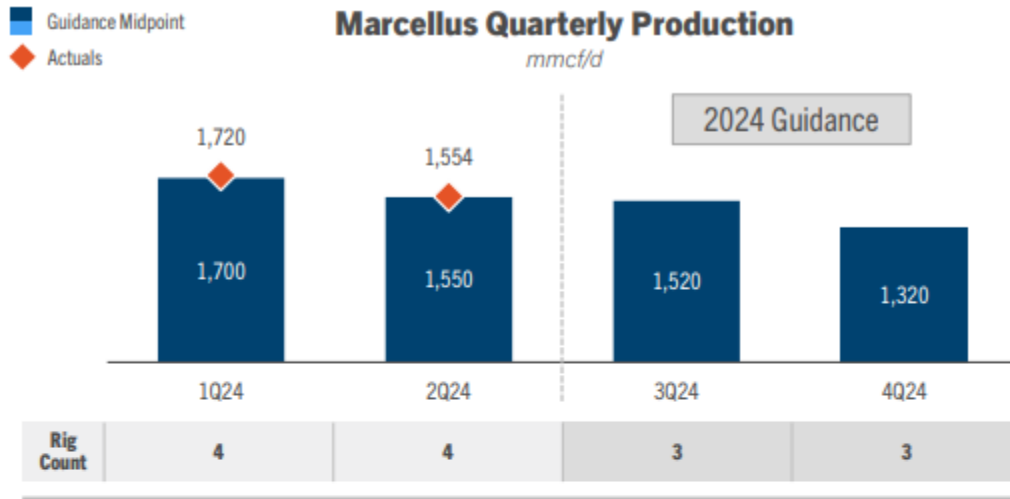
The recent volatility spike has been historic – more details discussed [here](#). Overall, this volatility has led me to reduce the position in Oil States, mostly because it made up such a large proportion of the portfolio (over 70%). I expect Iran to use the retaliation threat to negotiate for a ceasefire in Gaza. A ceasefire would be a major win for the Democrats ahead of the election, and hence I think the probability of a

success is growing larger. At the same time, spiking oil prices would be a nightmare for the Democrats ahead of the election. Despite clear election fraud in Venezuela, Chevron does not see the U.S. government withdrawing their license to sell Venezuelan oil. Meanwhile, Venezuelan and Iranian oil production continues to climb. Together with potential OPEC production increases and a weakening Chinese economy, this could lead to lower oil prices – although the SPR refilling is being accelerated once WTI drops below \$75/bbl. But it could get interesting when it comes to gas... The decline in production by EQT and Chesapeake, amongst others, has led to the slowest seasonal gas inventory fill over the last 4 weeks since the year 2010. Just last week, we saw a draw of 6BCF in the Lower 48 inventories for the first time ever in a week during the month of August. With gas producers expecting a reduction in production, I think it will be inevitable to see gas prices spike again. This in turn could lead to a surprising revival in US onshore gas drilling and completion, benefiting the OFS industry. This leaves me very confident that we will see a continued recovery in the valuation of Oil States International – and any potential Gaza ceasefire could be a very attractive buying opportunity, especially if Trump wins the election.



Source: EIA

Chesapeake gas production guidance



Source: Chesapeake Q2 24 presentation



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