

OFS Bits 3.16

Recent Data Points Support US Spending Up ~45% in 2022 Y/Y

Quick Take: Recent E&P budget announcements from majors have surprised us positively further supporting our thesis that U.S. spending growth in 2022 should be up ~45% y/y. Talks around inflation too suggest upside to our 10% assumption included in ~45% growth. Recall, we got universal pushback on our ~45% y/y U.S. spending growth in 2022 call due to completions spending share headwind (see [OFS Bits 3.14](#)). But, after working more on completions vs. drilling activity for public E&Ps, our confidence in our call had increased (see [OFS Bits 3.15](#)). HAL and TS are top picks and we also like PTEN. FTI too looks attractive near term. Omnicron virus and faster than expected OPEC production increase (400K/M) could pose risks to our call.

Building Blocks Of U.S. Spending Up ~45% in 2022 Y/Y

One, current U.S. land rig count of ~550 is up ~40% vs. 1Q21 average rig count of 390. If no rigs are added, U.S. rigs should still be up ~20% next year on average. **Two**, about 100 rigs are expected to be added by end of 1H22, which on a base of current ~550 rigs imply a ~20% increase. Given rig count increase will be 1H22 weighed, it implies another ~10% avg. rig count increase y/y. So, overall rig count could be up ~30-35% y/y in 2022. **Third**, OFS pricing should be up at least ~10%.

Recent 2022 E&P Capex Budget Announcements

For public E&Ps, we estimate roughly 5-10% higher spending could be needed for 5% y/y production growth, plus 10% inflation pegs 10-15% spending growth. However, there could be some outliers.

- Chevron guided 2022 global capex at the low end of \$15-17B range. However, U.S. upstream spending is expected to increase 30%+ to \$6.4B from 5.0B budgeted for 2021. Equally importantly, Permian capex is expected to be up ~50% at \$3B for 2022 vs. \$2B budgeted for 2021.
- Exxon announced \$20-25B global annual capex through 2027 vs. low end of \$16-19B for 2021 or up ~25% assuming low end, but we await geographic details. XOM talked about adding a couple of rigs in the U.S. on its 3Q21 call. XOM was running eight rigs at 2Q21 end vs. 7-10 rigs and 5-7 crews budgeted for 2021.
- Baytex announced U.S. capex at \$90M for 2022 vs. about \$125M for 2021 or down 28% y/y

Recent Inflation Indications

- Baytex Energy, Marathon Oil's partner in the Eagle Ford, is targeting 14 net wells in 2022 for \$90M spend or ~\$6.5M per well vs. ~\$125M for 23 wells in 2021 or \$5.4M per well. This implies ~20% inflation, assuming all else same.
- Industry check indicates MTDR is talking about 10-15% inflation in 2022 y/y as well.

Prior 2022 E&P Capex Budget Announcements

- Chesapeake guided to \$1.3B-1.6B capex for 2022 vs. \$740-810M pro forma in 2021 or up ~85% (partially could be from M&A)
- Enerplus guided capex to \$500M for 2022 vs. \$380M in 2021; up 32%
- OVV guided to \$1.5B capex for 2022, flat from 2021
- NFG guided to \$425M for FY22 vs. ~\$380M for FY21, up 12%

OILFIELD SERVICES & GREEN ENERGY

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Coverage Summary

Tkr	Rating	Price	12 Month	
			Target	Return
BKR	SO	\$23.34	\$27.00	16%
CHX	SP	\$20.41	\$25.00	22%
FTI	SP	\$5.67	\$13.00	129%
HAL	SO	\$21.59	\$28.00	30%
HP	SU	\$22.45	\$16.00	-29%
NOV	SP	\$11.92	\$15.00	26%
PTEN	SO	\$7.06	\$9.00	27%
SLB	SO	\$28.68	\$36.00	26%
TS	SO	\$19.72	\$29.00	47%

Source: Bloomberg; CPI est.

In case you missed

- [OFS Bits 3.15: More Confidence in US Spending Up 45% in 2022 Y/Y](#)
- [OFS Bits 3.14: U.S. Spending Up 45% in 2022; Upgrading TS](#)
- [Shareholding Analysis 3Q21 – OFS & Green Energy](#)
- [FTI: Deep Dive Into 2025 Guidance](#)
- [OFS Spreads & Valuation Tracker 3.13](#)
- [Green Energy Spreads Tracker 1.03](#)

Appendix A – Required Disclosures

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Appendix A – Required Disclosures Contd.

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Coker & Palmer Institutional Ratings Distribution

Category	Count	Percent
Sector Outperform	6	43%
Sector Perform	4	29%
Sector Underperform	4	29%
Total	14	100%

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Appendix A – Required Disclosures Contd.

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