COKER & PALMER
INVESTMENT SECURITIES

# EQUITY RESEARCH ALERT

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**OILFIELD SERVICES & ENERGY TRANSITION**
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## 2Q21 Earnings Call Takeaways – Positive

**Quick Take**: TS guided 3Q/4Q21 EBITDA at ~$335/370M, ~15/20% above Street. Annualizing 4Q21 TS revenue guidance imply $7.4B revenues for 2022, 15% above Street est. Investors are focused on EBITDA margins directionally in 2022 from 2H21, but assuming flat 20% EBITDA margins on $7.4B revenues imply ~$1,480M EBITDA or 13% above Street est. A handful of large projects should provide upside to simply annualizing 4Q21 revenues for 2022.

### 2H21 Outlook

- TS guided to LDD revenues growth in 3Q and 20% EBITDA margins. Assuming 10% revenues q/q growth, it implies ~$1,675M revenues (vs. Street's $1,492M est.) and ~$335M EBITDA or ~15% above Street est.
- The company guided to a similar volume growth in 4Q21 as in 3Q21 and higher pricing. Assuming 10% revenues q/q growth again, it implies ~$1,850M revenues for 4Q21 (vs. Street's $1,544M est.) The company guided to 20% EBITDA margins for 4Q21 as well as higher pricing offsets inflation. This implies ~$370M EBITDA for 4Q21 or ~20% above Street est.

### 2022 Implications

- Street is modeling $1.5B revenues in 4Q21 and $6.4B for 2022 or ~5% more than annualized 4Q21 revenues. However, now TS has guided to $1,850M revenues for 4Q21 which implies annualized $7.4B revenues for 2022 or 15% above Street est. EBITDA margins of ~20% imply $1,480M EBITDA or 13% above Street est. of $1,306M.
- A simple walk from EBITDA to FCF of $1,480M EBITDA, ~$40M interest expense, ~$175M tax, ~$350M working capital use [28% working capital (AR + Inventory –AP)/sales ratio, flat from 2021] and ~$300M capex (vs. $200M in 2021) implies ~$615M FCF for 2022 vs. Street's $600M est.
- Having said that, the ME projects are expected to drive high-double digit growth in 1H22 from 2H21 levels. Recent ENI offshore project win should help too, i.e. there is upside to simply annualizing 4Q21 revenues for 2022.

### EBITDA Margins Direction in 2022?

- Investors are looking for clarity around EBITDA margins directionally in 2022 from ~20% in 2H21. The company mentioned several moving parts, but stopped short of specific guidance.
  - 2H21 will have negative mix from increasing lower margins NAM revenues. While higher margins Middle East revenues from backlog should help in 2022. The company also expects Saudi tenders in 2022.
  - Inflation could be offset by higher cost absorption as the company is restarting six U.S. facilities. Two facilities Bay City and McCarty (TX) have ramped to full production. However, Conroe (TX) and Koppel (PA) are still ramping while Ambridge (PA) and Baytown (TX) will start in August.
  - 2H21 margins will also be impacted by additional hiring before the start of the plants. TS would have added 1,150 people in 2H21.
  - Additionally, higher pricing is expected to help offset inflation.

# Appendix A – Required Disclosures

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# Appendix A – Required Disclosures Contd.

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# Appendix A – Required Disclosures Contd.

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