HALLIBURTON COMPANY

4Q21 Earnings Call Takeaways – Neutral

OILFIELD SERVICES & GREEN ENERGY
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Quick Take: Neutral. HAL's guidance implies 1Q22 EBITDA at about $770M, in-line with Street est. We look for color on frac incrementals only at 30% despite pricing. The U.S. industry frac utilization is near 90% with HAL sold out. Strong D&E margins are sustainable outside seasonality in 1Q22. We continue to expect the OIH to struggle near term after a ~30% run up between Dec. 1 and Jan. 14.

1Q22 Outlook

- HAL's guidance implies 1Q22 EBITDA at about $770M, in-line with Street est.
- C&P revenues and margins to stay flattish q/q as completion tools sales in the GoM declines while the U.S. land frac activity improves
- D&E revenues to decline MSD q/q and margins down flat to 50bps seasonally.
- Corp. Exp. to decrease modestly to ~$60M; Int. Exp. flat q/q; Tax rate at 23%

2022 Outlook

- HAL specific
  - Capex of $1B or 5-6% of revenues which implies $17-20B of revenues vs Street's $18B est. We think ~$1B guide is gross capex or before ~$200M of lost-in-hole.
  - We are unclear on FCF messaging for 2022. HAL talked about cash flow from ops. excluding working capital to grow y/y but working capital will be a use. We expect FCF to be flat/modestly higher y/y as we expect working capital draw of ~$700M in 2022 assuming net days (DSO+DSI-DP) at flat 88 days vs 86/97/88 days in 2019/20/21.
  - Focused on further de-leveraging the balance sheet and targeting 2x debt/EBITDA which could imply about ~$1-2B of debt paydown (including $600M of 2025 notes called) assuming Street's 2022/23 EBITDA est. of $3.4 and $4.1B. HAL needs ~$2B cash on balance sheet for normal operations.
  - Not interested in variable dividend but share buybacks could be reinstituted at some point.
  - Margins to grow y/y in both segments. Importantly strong 4Q21 D&E margins are sustainable outside seasonality in 1Q22.
- International
  - Spending should be up mid-teens in 2022 y/y. LAM, ME and Russia should be strong while Africa and Europe growth would be limited to a few markets.
  - Seeing pricing traction on new work and contract renewals including IPM. The company has renegotiated better T&C and introduced pricing escalators though large tenders remain competitive.
  - Relocating assets for higher utilization and returns.
- North America
  - HAL expects U.S. spending to increase at least ~25% y/y in 2022 vs. (~20% earlier, BKR 25-30% and SLB 20%+)

  - Expect solid net pricing throughout 2022 with frac incrementals ~30%. NAM incrementals were 36% in 2021 despite inflation.
  - The U.S. industry frac utilization is near 90% with HAL sold out.
  - Secured net pricing increases across drilling, cementing, fluids, drill bits and artificial lift during the tendering season.
- Strategy: HAL continues to make progress on its five-pronged strategy.
  - Profitable growth internationally with capital allocation to the highest return opportunities.
  - Maximize cash flow in structurally smaller NAM.
  - Advance digitalization and automation across all businesses.
  - Capital efficiency at 5-6% of capex/sales ratio.
  - Advance sustainable energy future.

Questions To Ask

- Impact on D&E margins with asset relocation? C&P margins declined 80bps in 4Q despite 10% revenues growth as about ~10% of fleets were relocated.
- What kind of pricing improvements are embedded in ~30% incrementals expected in 2022 for frac? We typically think with pricing incrementals should be 35-40%.
- FCF trajectory for 2022?

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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