

E&P capex raises hopes for a 2019 land services recovery

The first upstream capex announcements suggest that 2019 North American onshore activity will be modestly higher than or flat from 2018. The E&P budgets provide signs of hope for services companies that predicted a rebound from the 2H18 slowdown.

 **ConocoPhillips**, one of the first to unveil its capex, hinted at a mixed 2019 with plans to spend \$3.1 billion on the Lower 48 in 2019, an amount that is flat YOY. The focus will be on Conoco's "Big 3" unconventional plays—the Eagle Ford, Bakken and the Delaware Basin—where its production is expected to grow 19% to 350,000 boe/d.

Chevron to increase spending onshore US by \$1B over 2018.

Other upstream companies were more gung-ho. **Chevron** said it intends to devote \$7.6 billion to the US this year, up by \$1 billion YOY, with capex for the Permian Basin to increase \$300 million to \$3.6 billion and spending for other unconventional plays to increase \$600 million to \$1.6 billion. **Hess** will increase Bakken spending 58% this year to \$1.425 billion, a sign of its belief in continuing growth potential in the North Dakota play.

➤ **Continues On Pg 4**

NYSE warns Weatherford as investors' patience fades

Weatherford International hit a new low with the NYSE issuing a continued listing warning. Weatherford shares have slid sharply since mid-November after Q3 results showed the weakest of the "Big Four" missed some of its turnaround targets,

 prompting analysts to talk about restructuring.

The NYSE notified

Weatherford to sell surface data logging business for \$50MM (PG. 10).

Weatherford on Dec. 14 that the company is not in compliance with continued listing standard because the average closing price of its ordinary shares had fallen below \$1 per share for 30 consecutive trading days. Shares dipped below \$1 for the first time on Nov. 13, closing at \$0.97. Shares have closed below that level ever since, reaching a low of \$0.24 on Dec. 24—a decline of 89% in two months.

Weatherford has six months to regain compliance with the NYSE. The company said it intends to revive share prices by completing its turnaround plan, designed to improve its 2017 EBITDA run-rate by \$1 billion by YE19, though a reverse stock split is possible.

➤ **Continues On Pg 10**

WaterBridge grows in Delaware through trio of acquisitions

WaterBridge Resources added 344,000 bbl/d of water disposal capacity in the southern Delaware Basin through about a half billion dollars in acquisitions with **Concho Resources**, **Halcon Resources** and **NGL Energy Partners**. The transactions will be partly funded by \$800 million of new debt facilities.



WaterBridge entered into a definitive agreement to acquire a batch of southern Delaware water infrastructure assets near Pecos, Texas, from NGL

for \$238.8 million at closing. The transaction includes nine saltwater disposal facilities with permits for 275,000 bbl/d of disposal capacity

and 10 miles of pipeline in southern Reeves and Ward counties, Texas. WaterBridge will assume all existing commercial agreements and an additional 90,000 bbl/d of disposal permits.

NGL spotlighted water services as a key to growth and sold its retail propane business last year to **Superior Plus Corp.** for \$900 million to build up water infrastructure in the Delaware. But NGL CEO Mike Krimbill said the strategy is focused on central Reeves County and into Lea and Eddy counties, New Mexico, where it will continue to have more than 1 MMbbl/d of permitted disposal capacity.

WaterBridge-NGL transaction expected to close by mid-February.

➤ **Continues On Pg 6**

Transocean receives \$830MM in GOM work for new drillship

Transocean signed a rig design and construction management contract and a five-year drilling contract with **Chevron** for one of its two ultra-deepwater drillships currently under construction at the Jurong shipyard in Singapore. The deals add \$830 million to Transocean's industry-leading backlog, exceeding the \$700 million the offshore driller added last year through its \$2.72 billion acquisition of **Ocean Rig**.

Transocean's acquisition of Ocean Rig closed in early December.

The newbuild, which Transocean touts as the first UDW floater rated for 20,000 psi operations, is expected to commence operations in the Gulf of Mexico in 2H21. The drillship will feature dual 20,000 psi blowout preventers, a net hook-load capacity of 3 million pounds, a 165-ton active heave compensating crane and an enhanced dynamic positioning system.

➤ **Continues On Pg 8**

DEALS FOR SALE

CHOCTAW CO., AL ASSET

17-Wells. 3-SWD. ~2,600-HBP Acres.

GILBERTOWN FIELD

EUTAW & SELMA CHALK

Subsurface Geology Available.

100% OPERATED WI; ~85% NRI

Gross Production: 76 BOPD

Net Production: 65 BOPD

Last 3-Mns Net Cash Flow: ~\$85,580/Mn

Ongoing Maintenance Improved Production

Est. 23.4 MMBO Probable Reserves

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PP 7644DV

PP

**>90
BOPD**

NORTHERN DJ WATERFLOOD

11-Total Wells. ~3,500-Gross Acres

BANNER CO., NE & LARAMIE CO., WY

J1, J2 & J3 DAKOTA SANDS

16-Successful Offset Waterfloods

100% OPERATED WI; 82% NRI

Gross Production: 44 BOPD

Net Production: 36 BOPD

Net Cash Flow: ~\$31,900/Mn

Cash Includes 2.0%-6.4% Overrides

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PP 8305DV

PP

**WATER-
FLOOD**

Activity Index

PLS

Company	Category	Primary Activity	PG.
Borr Drilling	Contracts	Jackups find new work off Mexico	6
Carbo Ceramics	A&D	Sells proppant facility to U.S. Silica for \$23MM	4
CGG	A&D	Subsidiary selling equipment to CNPC sub	6
EES	A&D	Acquires Patriot Chemicals for about \$1MM	4
EnSCO	Contracts	Newbuild jackup receives its first assignment	7
EnSCO	Technology	Touts new system for pipe-tripping	9
Ensign Energy Services	A&D	Offer expires but Trinidad buy should go ahead	4
ExxonMobil	Developments	Seismic survey disrupted by Venezuelan navy	3
Halliburton	Contracts	To drill development wells for Eni in Iraq	6
Helmerich & Payne	Finance	97% of eligible 2025 notes exchanged	12
Hi-Crush Partners	Finance	Sales fail to meet even lowered expectations	13
Hi-Crush Partners	Analyst	(NYSE: HCLP; Jan.7-\$4.34)	15
Hyduke Energy Services	Finance	Gets \$257,000 loan in exchange for warrants	12
Independence Contract Drilling	Analyst	(NYSE: ICD; Jan. 4-\$3.16; Buy)	15
Mammoth Energy Services	A&D	Adds aviation services fleet with \$7.9MM in deals	4
Mammoth Energy Services	Analyst	(NYSE:TUSK; Jan. 4-\$19.17; Hold to Buy)	15
Noble Corp.	Contracts	Bringing drillship out of stack for Americas work	7
Oceaneering	Contracts	Adds 2 Petrofac projects to portfolio	6
OpusCapita	Technology	To bring source-to-pay system to Equinor	9
Packers Plus	Technology	Adds composite and degradable frac plugs	9
Parker Drilling	Finance	Files pre-arranged bankruptcy plan	11
Patriot Chemicals	A&D	Acquired by EES for about \$1MM	4
Petrofac	Developments	Says malware didn't ruin any data	3
Petrofac	Finance	Uses asset sale proceeds to pay down debt	13
Petroleum Geo-Services	Developments	Seismic survey disrupted by Venezuelan navy	3
Pivotal Safety	A&D	Total Safety expands Canadian operations	6
Precision Drilling	Finance	Cut its debt by \$112MM in 2018	12
ProPetro	A&D	Closes acquisition of Pioneer fracking assets	5
Quintana Energy Services	Finance	Quintana IPO partners looking to sell shares	12
Rowan Companies	Contracts	Rowan jackups land more work in South America	7
RPC	Finance	Repurchased at least 2.1MM shares in 2018	12
Saipem	Developments	Says malware didn't ruin any data	3
Saipem	Contracts	Receives \$1.2B in work from Egypt's Zohr field	8
Solaris Oilfield Infrastructure	Contracts	Anchor contract for Oklahoma rail facility reduced	9
TechnipFMC	Analyst	(NYSE: FTI; Dec. 14-\$21.35; Buy; PT-\$28)	15
Total Safety	A&D	Expands Canadian operations through acquisitions	6
Transocean	Contracts	Receives \$830MM in GOM work for new drillship	1
Transocean	Analyst	(NYSE:RIG; Jan. 4-\$7.24; Underperform)	15
Trinidad Drilling	A&D	Ensign offer expires but sale should go ahead	4
U.S. Silica	A&D	Acquires Carbo proppant facility for \$23MM	4
U.S. Well Services	Finance	Misses 2018 target, but upbeat on 2019	13
Vantage Safety Services	A&D	Total Safety expands Canadian operations	6
WaterBridge Resources	A&D	Grows in Delaware through trio of acquisitions	1
Weatherford	Finance	NYSE warns as investors' patience fades	1
Weatherford	A&D	WFT to sell surface data logging unit for \$50MM	10

Developments & Trends

Canadian OFS likely to suffer through another rocky year

The new head of the Petroleum Services Association of Canada expects 2019 to be another difficult year for service businesses. A clearer forecast has been made more difficult as their customers have been slow to release capital budgets.

"The oilfield service sector is where the majority of jobs are in the oil and gas industry, and since 2013 we have gone from 833,000 people being employed

PSAC estimates 3,532 wells will be drilled in Alberta in 2019.

in the service sector to 530,000 as of 2017," Gary Mar told the Daily Oil Bulletin. Mar, who served in Alberta's legislature from 1993 to 2007, became head of PSAC on Dec. 1.

In its last official outlook, issued Nov. 1, PSAC predicted 6,600 oil and gas wells would be drilled in Canada in 2019, more than a 5% decrease from 2018. The projected decline was blamed on Western Canadian crude's wide discount to WTI because of a shortage of takeaway capacity.

ABOUT THIS REPORT

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OFS enters 2019 looking to shake off H2's slowdown

You can't blame oilfield services for longing for 1H18 problems such as struggling to hire enough people for all the available work. In H2, E&Ps depleted production budgets early,

IN THIS ISSUE

Permian Basin takeaway pipelines filled up, and US completion activity slowed. For a final headache, sub-\$50/bbl crude returned. Now some E&Ps have released their 2019 capital budgets, suggesting that the 2H18 slowdown was a temporary blip (PG.1).

Still, Q4 results are likely to reveal a challenging quarter. **Weatherford International**, which announces Feb. 1, should have a closely watched presentation. The company missed its Q3 goal of neutral cash flow for the second straight quarter, and its stock suffered. Weatherford has predicted positive cash flow in Q4, and meeting that mark could restore confidence (PG.1).

Parker Drilling files for pre-arranged bankruptcy plan (PG.11).

Hi-Crush Partners was one of the first with a great idea: Instead of shipping sand from Wisconsin, mine West Texas sand and offer frackers a chance to avoid logistics costs. Unfortunately, it was such a good idea that other companies did it, too. The in-basin sand surge and the H2 completion slowdown combined to send Hi-Crush's Q4 sale volumes down 29% from Q3, and the partnership has suspended its distribution (PG.13).

Of course, offshore doesn't want to hear about US onshore problems after years of doldrums. The latest round of contracts showed some signs of turnaround, including a five-year drilling contract in the Gulf of Mexico for a **Transocean** drillship still under construction (PG.1), an **EnSCO** harsh-environment jackup heading to the UK after delivery this quarter (PG.7) and a **Noble Corp.** warm-stacked jackup in the GOM going back to work in February (PG.7). Offshore should soon reap the benefits of consolidation, as the sector dominated what was an otherwise stagnant 2018 A&D market (PG.5).

Developments & Trends

PGS seismic survey disrupted by Venezuelan navy

Two vessels hired by **ExxonMobil** halted 3D seismic data acquisition off Guyana when approached by the Venezuelan navy, according to the supermajor. ExxonMobil said drilling operations were unaffected but did not say when seismic acquisition would resume in the area.



The Ramform Tethys survey and the Delta Monarch offshore service vessels, operated by **Petroleum Geo-Services**, were reportedly confronted in the northwestern Stabroek Block, though Venezuela said the vessels had entered its national waters. ExxonMobil is drilling in the southeastern area of Stabroek as it develops its Liza-1 discovery.

Guyana said it would bring up the incident to the United Nations.

Guyana's government called the Venezuelan naval interference an "illegal, aggressive and hostile act" but said it was committed to resolving the matter by diplomatic means. In 2013, the Venezuelan navy seized an **Anadarko** survey vessel off Guyana, freeing it a week later.

For several years, Venezuela has attempted to claim the Essequibo, a region that makes up two-thirds of Guyana's territory. The region has few people but is valuable because of its mining and logging resources and the maritime rights over ExxonMobil's discovery.

Saipem, Petrofac say malware attack didn't ruin any data

Saipem and **Petrofac** were struck by malware, though both companies said the damage was limited. While Petrofac did not specify what infected its systems, Italy-based Saipem said it found a variant of Shamoon, which nearly shut down **Saudi Aramco** in 2012.



Silicon Valley security firm **Symantec** said it found evidence of Shamoon attacks against two other oil and gas organizations in Saudi Arabia and the United Arab Emirates during the same week. A 2012 Shamoon attack infected three-quarters of Saudi Aramco's corporate PCs.

The new version of Shamoon includes a new wiper that deletes files from infected computers before the malware wipes the master boot record, Symantec said. Eliminating the master boot record makes the computer unusable, and the wiper prevents data from being recovered.

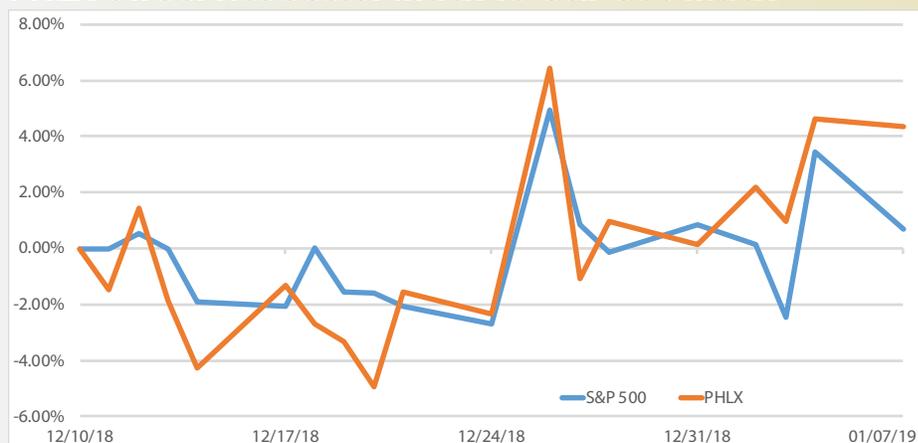
Iran suspected as Shamoon attack source in 2012, but latest culprit is unclear.

Saipem reported the malware was found in 300-400 servers based in the Middle East, India, Scotland and Italy. The attack canceled some data and infrastructure, but Saipem was able to start back-ups. Saipem reported a week after the Dec. 10 attack that restoration was nearly complete with no theft or loss of data.

UK-based Petrofac also experienced problems with information technology systems that week. While Petrofac did not cite Shamoon, it did say a "new variant of a known malware" infected some of its systems in the Middle East but no data was lost. The engineering firm said the malware was confined to offices and did not affect project sites.

PHLX Oil Service Sector Index Vs. S&P 500 Index

PLS



Source: PLS Research Using Google Finance

Developments & Trends

E&P raises hopes for a land services recovery Continued From Pg 1

Last year started with a frenzy of activity, driven largely by the boom in Permian production. OFS companies in H1 widely reported climbing labor costs—a side effect of having to attract workers to sparsely populated West Texas while the US unemployment rate was low—but demand was strong enough that the added expense was passed on to customers through price increases.

However, North American completion activity slowed in 2H18, and a common explanation was that E&P firms burned through their 2018 capital budgets faster than anticipated. OFS companies predicted a turnaround in Q1, when budgets were refreshed.

But the sudden drop in crude prices increased uncertainty. WTI spent April-September 2018 in a \$65-75/bbl range, peaking at \$76.41/bbl on Oct. 3. Crude took a precipitous drop in Q4, reaching \$42.53/bbl on Dec. 24, a low for the year.

Uncertainty about crude could force E&Ps to stay within their cash flow in 2019. For one, ConocoPhillips planned its 2019 budget so its free cash flow should match 2018's even if crude falls to \$40/bbl.

EIA says 8,723 DUC wells in US in Nov., a rise of 832 in three months.

When reporting 3Q18 results in November, OFS officials downplayed the swoon's impact on 2019, noting that oil was still higher than when 2018 budgets were written.

Permian crude takeaway pipelines are practically full, triggering a completions slowdown and a rise in DUC wells, and new ones remain months away. Relief should start in Q3 with the completion of **EPIC Midstream Holdings'** new NGL pipeline, which will carry oil until the company's crude pipeline is completed next January.

Skeptics began to warn that an abundance of fracking horsepower would erode pricing. **Halliburton** argued that the oversupply concerns were exaggerated since the intensity of fracking would eat away at any surplus.

PAA's Cactus II from Permian to start in Q3, but full service to wait for 2020.

A&D

■ **Mammoth Energy Services** expanded its aviation services business, acquiring **Air Rescue Services** and forming a JV with private equity firm **Wexford Capital**, which purchased **Brim Equipment Leasing**. Mammoth, which paid \$7.9 million in the transactions, presented the fleet of six helicopters as an extension of subsidiary **Cobra's** utilities operations, though the company said it could pursue additional aviation service opportunities. Formerly a fracking and proppant company, Mammoth now gets most of its revenue from utility and infrastructure operations.

■ **Energy and Environmental Services** signed a non-binding LOI to acquire **Patriot Chemicals & Services** in a combination of two Oklahoma-based oilfield chemicals companies. EES will pay to Patriot shareholders \$300,000 in cash, \$300,000 in notes and 2 million shares of EES common stock, which closed at \$0.21 ask per share before the LOI, with another 1 million shares in each of the first two years after the transaction subject to earnouts. Before earnouts, Patriot shareholders will own about 4% of EES. Management estimates that pro forma consolidated revenues for 2018 will be \$10.9 million.

■ **Ensign Energy Services'** offer to purchase all the common shares of **Trinidad Drilling** expired, though the acquisition is almost certain to be completed as Ensign controls more than two-thirds of outstanding common shares. Trinidad will proceed with a special meeting of shareholders scheduled for Jan. 31 to approve a going-private subsequent acquisition transaction. After the meeting, Ensign said, all remaining Trinidad common shares would be acquired for \$1.68 per share, the same price as the expired offer.

■ **U.S. Silica Holdings** will convert a former ceramic proppant facility in Millen, Georgia, into manufacturing high-end products for the company's Industrial and Specialties Products business. **Carbo Ceramics** agreed to a purchase price of \$23 million, with net proceeds around \$21 million expected after certain post-closing items are completed. Carbo intends to use some of the proceeds to pay down debt. Meanwhile, U.S. Silica will use the plant to produce some products still in customer trials and expects to begin full production in H2.

PetroScout Drillinginfo

PetroScout Dec. 20

Conoco to grow 2019 production in 'Big 3' shale plays.

US Rig Count as of January 6

PLS

Location	Current 01/06/19	Week Ago 12/30/18	Month Ago 12/06/18	Year Ago 01/06/18	% Chg. YOY
Total	1,149	1,160	1,201	1,060	8%
Top Drillers					
Helmerich & Payne	249	250	243	205	21%
Patterson-UTI Drilling	160	164	170	127	26%
Nabors Industries	116	118	117	110	5%
Precision Drilling	77	76	77	62	24%
Cactus Drilling	52	54	54	50	4%
Major Basins/Areas					
Delaware	273	276	280	231	18%
Midland	214	212	217	191	12%
Gulf Coast	122	127	138	116	5%
Anadarko	103	105	102	106	-3%
Appalachian	70	64	71	71	-1%
East Texas	62	63	60	62	0%
Williston	58	59	62	52	12%
Non-Anadarko MidCon	56	62	76	45	24%
Offshore	46	42	43	49	-6%
DJ	37	38	29	29	28%
Powder River	26	26	24	21	24%
Piceance	26	28	29	34	-24%
Other	56	58	70	53	6%
Major Basins/Areas	1,149	1,160	1,201	1,060	8%

Source: Drillinginfo

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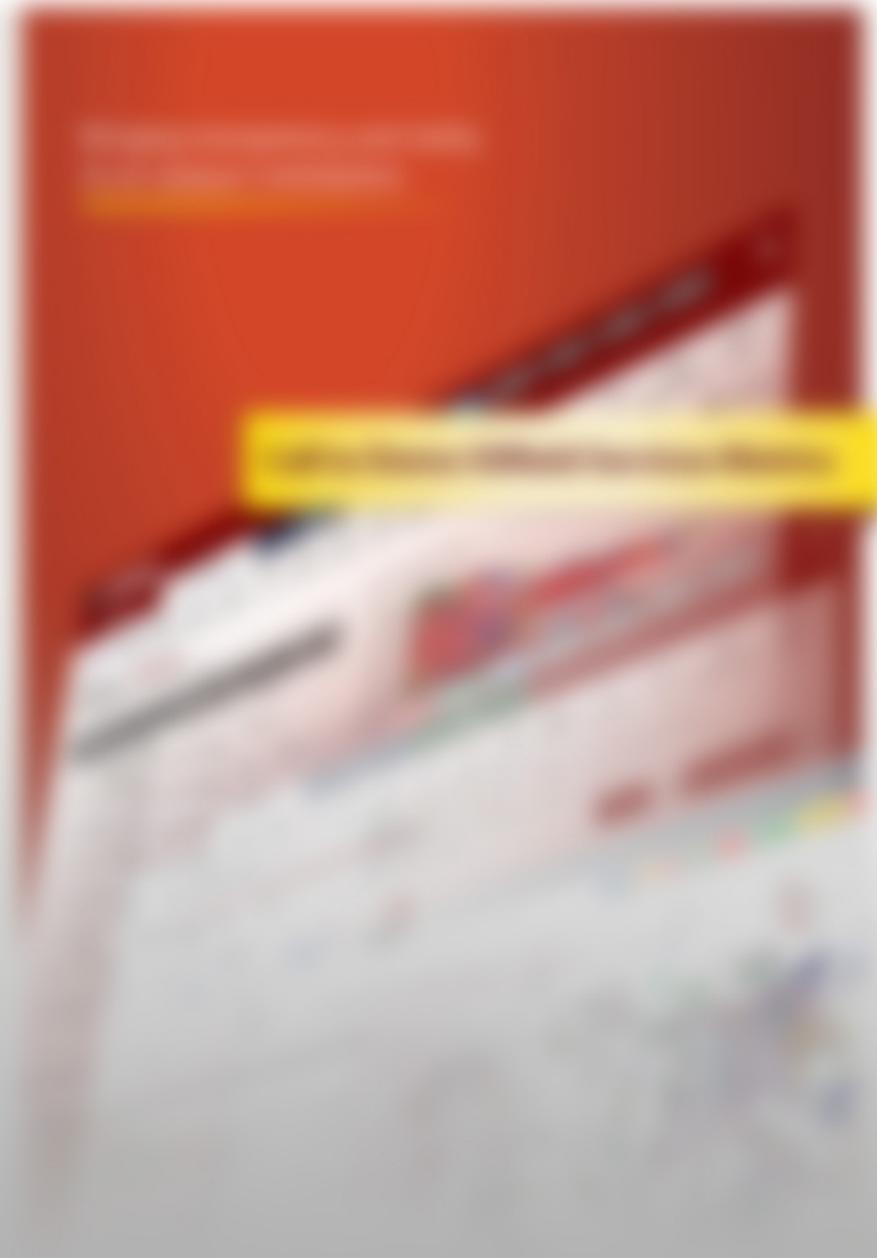
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