News : Patterson-UTI eyes drilling step-up in 2023, after projected slowe pace in H2 2022: CEO

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- Talks on 2023 rig availability began in early 2022
- E&Ps 'concerned' now about their preferred rigs next year
- Large number of lower capability rigs could be upgraded

The **US** oil and **gas** drilling activity pace is likely to step up in 2023, after a slower tempo in the back half of 2022 from a fast pace in the first six of the year, the top executive of land driller **Patterson-UTI** said June 23.

The added oomph next year is likely to come from large international public companies which were "kind of slow" to add rigs this year, **Patterso** CEO Andy Hendricks said in webcast remarks at the **JP Morgan** 2022 Energy, Power and **Renewables** Conference.

"You're going to continue to see an activity increase in the second half, not at the same pace," Hendricks said. "But then when **we** get to 2023 you're going to see a step-up in activity."

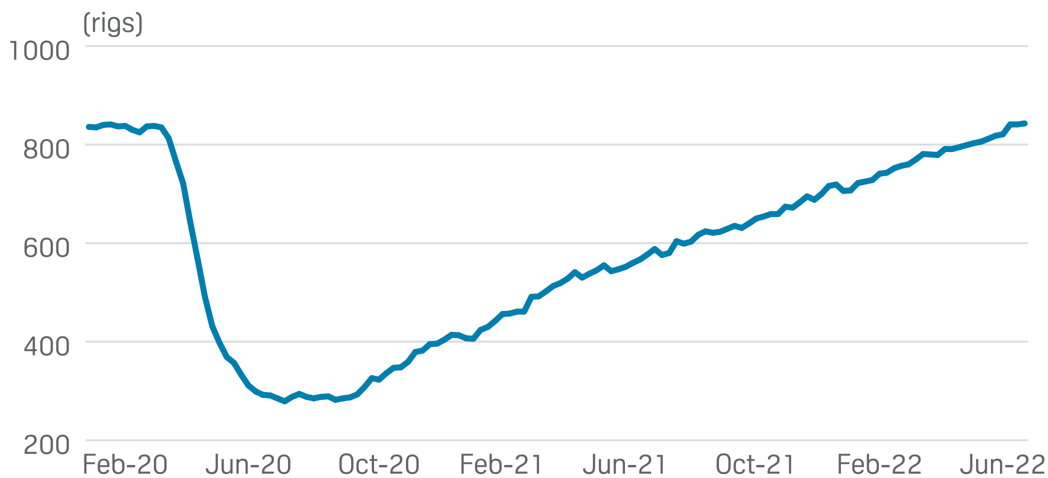
Even as early as the company's first-quarter 2022 earnings conference call, Hendricks had signaled to the market that top-tier rigs were being le quickly and that the industry was running low on premium equipment.

"You've seen a fast increase [in the pace of drilling activity] in the first half of this year," he said. "**We** called out [in April] that **we** were al discussions with operators for rigs in 2023."

The fact that discussions on rig early this year for 2023 availability was "interesting" since that situation typically doesn't occur until the secon the year when E&P operators begin their budget cycles, he added.

But this year, "E&Ps are concerned enough about the availability of drilling rigs for next year," that they appear to be taking care to assure they preferred rigs contracted in advance of actual need, Hendricks said.

US OIL AND GAS RIG COUNTS HAVE STEADILY MARCHED UP



Source: Enverus

Producers planning ahead

As a result, producers are planning ahead more than they did over the last two years, he said.

"They have constraints around casing and tubulars and so they're having to plan all this in advance, and they're already talking to **us** about the rigs. So I think by the time **we** get to the July earnings call, **we** 're going to have more color on what **we** think our rig count is going to do, and kind of help you understand what the market is going to do as well."

The upcoming round of July and August second-quarter conference calls is highly anticipated. A company's mid-year call is a traditionally an in one, since at that point industry begins to look ahead to the following year and assess the combination of oil and natural **gas** prices, current ri and the pace of adds or decreases, and other fundamentals to provide visibility on how to apportion the following year's capital budgets and needs.

As recovery from the 2020-2021 coronavirus proceeded in early 2022, a major twist cropped up – **Russia** 's invasion of **Ukraine** in Februar propelled **crude** prices from the high $70s/b in late 2021 and the $90s/b pre-invasion to well over $100/b during much of the period since **R** move on its neighbor nation.

It also highlighted the importance of more oil supplies needed in the near- and mid-term, and of supply security since it reconfigured the geog supply purchases for Western nations owing to sanctions or forthcoming sanctions imposed on **Russia** .

Fortunately for the **US** fleet, upstream operators haven't viewed $100/b-plus oil as a reason to loosen their pocketbooks and produce all-out. they have stuck to a corporate model of low-double-digit percent production growth, using the large free cash flows reaped from elevated oil p reward shareholders with growing dividends.

In keeping with recent commentary from rig experts that the growing **US** rig count for many months has mainly occurred not from large public o but from privately held producers, Hendricks also said Patterson's fleet has been "more weighted to the privates," although he added his c "work[s] for everybody."

More activity by large E&Ps in 2023

"That's because the privates have really kind of been the first movers in the industry coming out of the 2020 downturn and through 2021," he sa the large international major oil companies have really been kind of slow to get started in this area, and you haven't seen them really incre activity – and that's what's going to happen in 2023."

Patterson has a little over 180 rigs in its total fleet, and currently operates 124 rigs in the **US** and six rigs in **Colombia** , said Hendricks.

Even though land drillers, including **Patterson-UTI** and its large **US** peers Helmerich & Payne and **Nabors Industries** , are experiencing d availability of top-tier, "super-spec" premium rigs in the domestic fleet, but they also have sizable numbers of lesser-capability rigs that c upgraded.

However, that would take time especially because of the lack of materials amid limited supply chain transportation logistics industry-wide, and u would cost more than they did pre-pandemic, but it could be done at some point, drillers say.

"**We** still have a large number of either super-spec or just AC high-spec rigs, approximately 70, that could be upgraded to be Tier 1 supe Hendricks said.

Helmerich & Payne also has a "large number" of such rigs while Nabors has "some," he said.