National Energy Services Reunited
Second Quarter Earnings Call
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Presenters
Chris Boone—CFO
Sherif Foda—Chairman and CEO

Q&A Participants
Sean Meakim, JPMorgan
George O'Leary, TPH & Company
Blake Gendron, Wolfe Research
Andres Menocal, Evercore ISI
Igor Levi, BTIG

Christopher L. Boone

Good day, and welcome to NESR's Second Quarter 2020 Earnings Call. With me today is Sherif Foda, Chairman and Chief Executive Officer of NESR. On today's call, we will comment on our second quarter results and overall performance. After our prepared remarks, we will open up the call to questions. Before we begin, I'd like to remind our participants that some of the statements we'll be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest earnings release filed earlier today and other SEC filings. Our comments today may also include non-GAAP financial measures. Additional details on reconciliations to the most directly comparable GAAP financial measures can be found in our press release, which is on our website. Finally, feel free to contact us after the call, with any additional questions you may have. Our Investor Relations contact information is available on our website. Now, I'll hand the call over to Sherif.

Sherif Foda

Thanks, Chris. Ladies and gentlemen, thank you for participating in this conference call.

We are very excited to report on our continued outstanding performance this quarter. This is the first time we have surpassed the 200 million mark in revenue. We grew 27% year over year and 2% sequentially despite all the turmoil around the globe especially in the Energy sector that is the most affected.

This achievement speaks about the strength of our field personnel on the ground, their resilience, dedication, commitment, and the top operational management teams.

At a time of crisis, you can determine the real differentiator when their results defy the norm. We are basically swimming against the current and still outperforming the entire OFS industry. Our best-in-class, talented employees know how to score the top position in everything they do.

We have been essentially six months into the pandemic, yet we maintained 100% capacity. We have seen the situation change and evolve continuously; we are always ready, agile and adapt real time on the spot to the condition of each country. The Middle East has seen strict and stringent actions to control the spread of COVID-19. This has included curfews, severe travel restrictions on both land and air, quarantines, testing and tracking protocols. The strictness varies from country to country and, consequently, we developed a detailed country-specific strategy early in the cycle. In addition, we have developed our protocols which are required to be followed by all employees. All this has essentially increased the complexity, as well as the cost, of ours and our customers' operations and they greatly value any company that supports them and keeps the operations intact. It is a credit to our operating teams that in an environment of increased costs we have managed to maintain our operating margins. We are not releasing anybody or taking any charges and have produced these numbers on a very clean quarter.

Since the start of the pandemic back in February when we set up our CMT—Crisis Management Team—we did not turn down a single job. The CMT, led by my direct reports, continues to meet daily and review the entire operations of each country, including spares, chemicals, personnel readiness, customer needs and their feedback, all type of details, as you can imagine. This is the key to our success and ensuring we are never surprised by a new regulation, lack of spares or any sudden change of customer programs that we are not well prepared for.

On a human level, we are doing everything to ensure that our personnel are taken care of and every possible protection protocol is diligently followed. Working cycles for field personnel have changed, some mandated by the customers and some essentially due to the travel restrictions in place. I am very thankful and blessed to have such a talented pool of individuals who take pride in not only what they are doing for NESR, but also in serving the communities and their countries in which they are working. One of the advantages of having a large national workforce is that you get all these factors helping you in managing the situation. It is a great source of national pride for each of them to hear that they as nationals are delivering and coping with this once in a lifetime event in a much better manner than almost everyone else. Meanwhile, we ensured to continue to follow with the rotational expat community who are stuck in the country of operations that their family back home is well taken care of. This is part of our DNA and commitment not only to the employee but all their extended families in such a difficult time.

Now let me say a few words about the macro and how we see things with the global pandemic effects. In the short term, it goes without saying that MENA will remain clearly the most resilient for oil and gas activities. The core GCC markets overall have held very well and have seen a drop in the 10 to 15% on average while the non-GCC MENA markets had a steeper drop due to mainly security, pandemic effects, and more importantly the different client mix. Example: North Iraq, which has a large count of small independents, have seen similar level of drops in activity to North America and it is primarily related to the economics of the production agreements that is very sensitive to oil prices. National Oil Companies remain focused on the long term and being the most reliable provider of energy to the world, they do not change their long term plans and remain vigilant for the health and safety of their respective economies, their people, and their wellbeing.

That is not to say there was no effect on activities in the different countries, they did release drilling rigs, mainly the poor performing, and they did delay some of the earlier planned so called " nice to have" or more of exploratory in nature or frontier projects. Going forward, they will keep adjusting the short-term rig assignment between oil and gas depending on the worldwide demand. However, we do not see the main activities dropping any further. In addition, the rig-less work will adjust accordingly. Internal consumption for the gas and energy transition remain solid, and ESG commitment of all our client is very high on their agenda. They will continue in their pursuit to ensure lowest carbon footprint for their energy demand and will indeed develop their massive gas resources.

For NESR, as we say, do not get tired of doing a good job. We believe we will maintain the course and ensure we are serving all our different customers professionally ensuring our activities will not get affected.

Last quarter, I talked about how we initiated and started executing our unconventional fleet operations in the Jaffurah Basin in Saudi Arabia, which has been a successful project for NESR as well as for our customer. In addition, we spoke about sending a second fleet and working before year end. I am glad to announce that we did send our second fleet from our partner NexTier, we did manage to ship and clear customs during the pandemic, most importantly that fleet hit the floor running. Not only we were assigned work, but we managed to start the fleet without expats. This was done in close coordination with our trusted customer. We have performed at par or better than other existing established fleets in the region. In addition to this, our American team who have been in the country for more than three months had to go back home to see their families towards the end of May. Everyone thought we will have to stop the fleet or delay the work. On the contrary, we managed to put the Saudi team who have been trained in both the Permian and the region to completely take control and manage the operations professionally since then. This is the best testimonial of the talent and ingenuity of the Saudi nationals. They took control, managed the fleet, operated the entire set-up without any issues, despite the elevated temperatures during the summer months, and with all the pandemic restrictions. It is the culture and the proof when you provide the proper training, proper exposures, proper tools, people will excel in everything they do. We are really proud of being national and our professional crews who compete at the same level and standard with the best not only in the region but the entire industry. Again, this could have never been achieved without the true support of our customer, their belief in us and their invaluable guidance from the start.

Moving away from the frac, we also had a major breakthrough in wireline in Saudi where we have been qualified to work in their gas fields cased hole operations. Our ability and experience perforating in both the frac fleets aided in that endeavor. Our logging operations started very small when we put the company together, and we are progressing in the last few quarters. And with the SAPESCO addition, we have good Wireline operations in four countries, which will be an important avenue of high-quality revenue growth in the future.

We also did our first well test operation for a major client in Iraq. This was done with a full national crew.

In Kuwait, we gained market share with a new record of cementing number of jobs in a month. Subsequently our client assigned a higher number of rigs to us as we continue to replace the competition. Similarly, we had an increase in the assigned TRS rigs. Today we have solid three contracts in Kuwait, and we are looking forward to enhancing our presence in this very important market.

In Oman we won several key drilling and production contracts further solidifying our position. We ran a Dual Casing Section Mill, successfully milling 30m with controlled ROP for our client. The technology saved 3.5 days rig time versus a conventional tool that will do the job in 7-8 days.

The technology is a new world-wide application, the third tool globally and the first to make this 30m in one run. We continue to engage at all levels in our core country where we have the highest level of Omanization among the service industry.

In Abu Dhabi we extended our cementing contract for a further period of two years. We have maintained all our operations for coil tubing with minimum interruption to the field despite the restrictions.

In Libya, we continued to perform our operations in the east of the country. We have maintained our 100% Libyan nationals who are capable to serve the limited number of rigs available for the clients. We maintained our presence and ready for future expansion should the NOC decide to add rigs.

In summary, and as you see in our results, our momentum and direction has not changed, and we have shown resiliency across the board on our results and activities.

NESR today has an appreciable drilling portfolio and our endeavor recently has been ways to high grade the portfolio by adding technology offerings and we have been working towards curating these solutions for our customers. In Q2 we have finalized two of these investments which are long cycle investments and we shall be introducing them to our customers shortly in the region. This is the continuation of our New Technology strategy where we team up and invest with the best innovative minds in North America.

Lastly, as you know we announced that effective the 1st of June we are in charge of running SAPESCO and we are accordingly reporting it as such. SAPESCO has a lot of talent and brings NESR accretive contracts and business lines. Beyond the ongoing integration activities, we are already working on opportunities to expand their business lines where we do not have an offering in the countries where they don't offer the same. Industrial services is a focus area and we are working on several opportunities in the GCC area for the same. We already won a TCP contract for a client in Egypt and we are expanding our footprint in Libya with their logging and SLK business.

This month, we already moved their operations in Saudi and Libya to our bases. This shows you the commitment and the level of eagerness of both organizations to work together. Despite the drop of activities in Egypt, we remain very focused on the long-term business and potential in the area.

And on that note, I will pass the call over to Chris, to talk about the financials in detail. Chris?

Chris Boone

Thank you, Sherif.

As Sherif mentioned, we reported our highest quarterly revenue ever, with second quarter revenues of $203 million. This represents an increase of 27% over the prior year quarter and 2% over the first quarter. The sequential and year over year growth was driven primarily by the new unconventional product line in Saudi Arabia and our new contracts in Kuwait and Abu Dhabi that offset market declines in Iraq and North Africa. The second quarter also received the benefit of one month of SAPESCO revenue.

We also achieved another record in the second quarter of 2020 as adjusted EBITDA was also the highest quarterly amount we have reported. Adjusted EBITDA was 52 million, or 26% of revenue, increasing 13% over the prior year quarter and up $1 million over the prior quarter. EBITDA adjustments of $1.8 million for the quarter are primarily for transaction and integration costs associated with the acquisition of SAPESCO in Egypt.

Despite the market conditions, we are pleased that our adjusted EBITDA margins remained flat over the first quarter. We have experienced increased recurring costs related to COVID-19, such as employee testing, rotation costs, field lodging, catering, and sanitization. We consider these costs as normal operations and have made no adjustments to EBITDA for them. To mitigate the impact of these incremental costs and reduced activity in some markets, we have been successful in finding opportunities to reduce other costs. We have been aggressively negotiating and receiving discounts in our supply chain, especially in product costs, equipment rentals, transportation, and field facilities.

Moving to our segments, our Production segment revenue for the second quarter was $139 million dollars, another quarterly record, growing 46% over the same period last year and 4% over Q1 2020. The sequential and year over year growth is primarily related to unconventional completion activity in Saudi Arabia, new contracts in Kuwait and Abu Dhabi. This was partially offset by lower activity in Iraq and North Africa. Adjusted EBITDA margins for the Production group of 29% were down sequentially from 31%. Margins were impacted by the start-up costs for the new conventional frac fleet, but, as a note, these costs were not adjusted out of our results. Also, the lower margin pass-through revenue associated with unconventional activity grew as a percentage of total Production revenue.

Separately, our Drilling and Evaluation segment revenue for the second quarter is 64 million dollars, flat compared to the same quarter last year and down 3% sequentially. The sequential decline is primarily related to reduced well testing due to lower drilling activity. However, adjusted EBITDA margins improved to 25% in the second quarter, the highest in several quarters, from 22% in the prior quarter. This was from a more favorable mix of revenue from logging and thru tubing services.

Depreciation and amortization increased to $30.4 million in the second quarter compared to $29.2 million in the prior quarter. Most of this increase was due to one month of incremental D&A from the SAPESCO transaction. We expect D&A to increase by approximately $2 million in the third quarter compared to the second quarter run rate from new capex and a full quarter of SAPESCO.

Interest expense in the second quarter was $4.2 million, down slightly from $4.5 million in the prior quarter. The benefit of lower interest rates on LIBOR were partially offset by one month of incremental interest from SAPESCO.

Our effective tax rate continues to track well below the rates seen in 2019 as we continue to optimize our tax structure. The effective tax rate for the first half of 2020 was 19.7%, compared to 23.2% in the first half of last year and the full year 2019 rate of 24.9% Based on current full year projections, we expect the effective tax rate to stay at or below 20%.

This resulted in reported net income of $10.5 million, or 12 cents per diluted share, and adjusted net income of 12.3 million, or 14 cents per diluted share.

We were also very pleased with the sequential improvement in operating and free cash flow. Cash flows from operations for the second quarter were $42.7 million, our second highest quarterly rate ever, up from $9.9 million in the first quarter. Gross collections increased approximately 13% sequentially on a revenue increase of just 2%. While invoice processing delays significantly improved from the onset of COVID, we are still experiencing a longer collection cycle than normal. We continue to align our supplier payment timing with our customer collections to mitigate this impact.

Capital expenditures in the second quarter were $27.1 million. Most of this cash spend was for payments of capex approved or received in 2019. In the first half of 2020, we have only authorized approximately $25 million in new commitments, which is about 25% of the original plan for 2020.

This improvement in operating cash flow generated positive free cash flow of $16M in the second quarter compared to negative $14M in the first quarter.

We expect even higher average quarterly free cash flow in the second half of 2020 over the second quarter rate. This will be achieved through improved collections and lower capex.

We expect DSO by year-end to return to or improve over the level seen at year-end 2019. The expected retention payment of approximately $20 million was collected in July and we could possibly receive an additional smaller retention release in the second half. We also expect additional DSO improvement in several markets that have been experiencing processing delays due to COVID.

Capital spending levels in the second half should be lower than the first half run rate as we significantly reduced our originally planned 2020 capex commitments at the outset of the COVID crisis. Cash capex for the second half is expected to be in the range of $30-$35 million, down from $51 million in the first half.

Net debt increased to $342 million at June 30, 2020 compared to $336 million at the end of the first quarter. Net debt increased sequentially as our net cash generation was offset by the addition of net debt of $22 million from SAPESCO. We drew an additional $15M from the revolver to fund a portion of the upcoming regulatory closing of SAPESCO. As of June 30, 2020, our net debt to adjusted EBITDA ratio was 1.7, flat from last quarter, and should reduce to our target level of approximately 1.5 in future quarters. Also, we remained in full compliance with our credit facility financial covenants in Q2 2020.

Finally, in response to the changing market conditions, we were able to successfully renegotiate the timing of certain closing cash and debt payments for the SAPESCO transaction. The initial agreement called for cash and debt repayments of approximately $50 million at closing. Now only $22 million of cash and debt payments need to be funded when the final post-closing regulatory actions are completed in Q3. Additional cash payments of $6 million will be paid monthly over the third quarter. We also negotiated additional earn-outs for cash payments of up to $7 million only if certain milestones are met in the fourth quarter. Finally, SAPESCO's primary lender agreed to extend the remaining long-term debt repayment of $10 million until the third quarter of 2021.

Moving to ESG, during the second quarter NESR issued its second full proxy statement that details our compensation philosophy. Our executive compensation is highly targeted to achieving performance targets. Our base salaries are generally below market with the majority of our compensation linked to achieving short-term and long-term goals that focus on growth, cash generation and stock price performance. Many may not realize that Sherif has waived his equity grants for the last three years so that more operational employees can participate in the equity program. The purpose is to not only align a broader group of employees with our shareholders but also to ensure that these employees share in this potential compensation and not just the senior executives. At NESR, ESG is not just about achieving a certain rating but also how we manage the company every day for the sake of all of our stakeholders.

In conclusion, NESR continues to outperform the market in revenue growth and margins through our regional focus and strong operational execution. We also strive to outperform the market on free cash flow generation and our performance in the second quarter demonstrates our ability to do so.

With this, I would like to pass back to Sherif for his final comments.

Sherif Foda

Thanks, Chris.

In conclusion, I would like to leave you with four key takeaways:

1. We have managed the COVID-19 situation and our readiness is better than anyone in the industry, maintaining 100% capacity at all times.
2. We continue to plan for the worst and hope for the best, targeting more market share and remain the trusted advisor and reliable partner to all our customers. We prepared already for potential phase 2 of the pandemic and the eventuality of further restrictions.
3. We aim to continue our growth in the coming quarters and enhance our offerings in the different segments.
4. We continue to look for opportunistic M&A, especially in the current environment.

On that note, I would like to pass it on to the operator for your questions. Operator?

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment, please, while we pole for questions. The first question is from Sean Meakim, JPMorgan. Please go ahead, sir.

Sean Meakim
Thank you. Hey, good morning.

Sherif Foda
Good morning, Sean.

Sean Meakim
Sherif, as you look at the back half of the year, I am hoping to just talk a little bit more about revenue expectations. You have got some markets that look more resilient. Others are more challenged with COVID and production cuts. You have the SAPESCO impact in the third quarter. You got a full quarter there. There is typically some seasonality in the third quarter. When you add all that up, could you just give us a sense of how your top line is trending for the back half of the year?

Sherif Foda
Thanks, Sean. So, the way we look at it is very similar to Q2, is that we would manage better than everyone else COVID-19, the restrictions, etc. If you look at the different customers, I do not see a drop in any of their activity in the core GCC. I think that North Africa and Iraq will remain depressed. It might get a bit worse in those two markets. But overall, I would say, more or less of the same of Q2. So, you put this together, and, as you rightly mentioned, the SAPESCO addition for the full H2, we should see a better run rate than Q2.

Sean Meakim
Okay. Thank you. That's helpful. And I guess a similar question on the margin profile. So, you noticed—you noted that you are experiencing some COVID-related costs. That's not a surprise. You've got some more pass-through mix coming. It seems—well, the full quarter impact of SAPESCO. So, in terms of margin expectations for the back half of the year, can you maybe just help us assess where you think things go from there?

Sherif Foda
Yeah. So, as you have seen, Sean, we decided early on that the COVID-19 situation is not like one or two quarters. It is something that we will have to live with it, right? So, we decided that this is not a part that we take off from our results. It is a part of doing our business. So, we decided that this is part of the business. We believe that it should be part of our cost. So, we have an increased cost due to the fact of you have to charter flights in some countries when you want to send the crew. You have to, as we said before, you have to separate the people and the accommodation. You have to add a lot of sanitizing the bases, the protocols, but it's part of our business. So, all this increase of cost would remain in our results. And as you have seen, we maintained the results. We maintained the margin, thanks to the resilience of our team. And we believe that we will continue to do that. As I keep saying, don't get tired of doing a good job. So, I do not believe that we will have any effect in the coming quarters due to that, because it's already part of our costs. It is already part of our results. And we did not make any exception on it.

And the pass-through, you are absolutely right. And that is what we said a couple of quarters ago that the Production segment, plus 30%, when you see this type of growth of almost 50% year-over-year, definitely, there is a lot of pass-through revenue, right? So, when you start to do these projects—today, we have two fleets running. Those fleets have camps, have trucking, have hauling, have water, have all kind of pass-through. All this, obviously, are revenue coming. It is accretive still, because it comes with plus 10%, but it's not the same when you run it as plus 30%, right? So, saying all that, if I would take a guess, I would say that we will maintain our margin profile of Q2 going forward.

Sean Meakim
Very good. Thanks, Sherif.

Operator
The next question is from George O'Leary, TPH & Company. Please go ahead, sir.

George O'Leary
Morning, Sherif. Morning, Chris. You guys have done an impressive job on the margin front given all the factors you have just listed related to COVID and the associated logistics problems that that presents. The other side—and I think one of the items that folks are worried about is just pricing on incremental contracts. Can you give us a sense, as we think out to the 2021 timeframe where that pricing sits, how discussions are going? Any color there would be helpful for us to think about margins on a longer-term basis.

Sherif Foda
Yeah, sure. So, if you look overall—because I'll try to give you a bit more of color of the pricing—so, our customers are very, very smart, and very savvy of the situation, understanding extremely well what is happening in the world and what's happening with the increased costs. So, when you are very close to the customer and you are engaged ahead of time with them, the discussion becomes very, I would say, mutual between both of us. So, we explain our costs. We explained that we are not going to increase any of our support costs or pass-through, etc., that we continue to negotiate with our suppliers. So, we make sure that we do not increase their cost of operation. We absorb all our internal costs without passing them anything. And that kind of conversation is very healthy. And I would say our big customer, the national oil company, especially in the big countries, are very, very understanding. And when we perform better than everybody else, including the big guys, they really appreciate that. And I would say they kind of shield you from a steep price negotiation. Definitely, if something that we come forward with, how to reduce the overall cost. And that is what is the key for our interaction with our customers.

So, if you are doing—just for the sake of argument, if you are doing a remote, let us say, coil tubing testing operation, we come upfront to the customer. We tell them we could rig up differently now and we do not need this amount of equipment, we do not need this amount of people. We can do the things differently. This will overall reduce the cost, and it's much better number than reducing some line items from my contract. And they appreciate that. And again, as you are a trusted partner, as they trust what you are doing and they believe it is genuine, they do listen. And we kind of appreciate that this is the fact, and we reduce the cost, because, obviously, the revenue dropped by 50% with the oil price.

So, I would say this conversation will remain. We are extremely, so far, fortunate and successful in these kinds of discussions. So, I do not see a sharp drop in our pricing. I think we will be able to maintain the current level of pricing in the second half and next year. Definitely, there will be some large tenders that will come that you will see a price drop, because, obviously, of increased capacity. Some of the customers, when they're going to tender something, I would say, in Q3, definitely, they would see a drop of price. But overall, the industry, as they do not have that room anymore, this is not like 2014 upturn and then a downturn. There is nothing left, right? So, now you are going to the bone. So, it's not like you have so much room to give away and people do not usually work like North America by losing money, right? So, usually people are more disciplined in the MENA region than here. I hope this answers your question.

George O'Leary
Yeah very helpful color, Sherif. And then you mentioned the Saudi gas field wireline win in the second quarter. I noticed that logging and TTS helped the D&E margins during the quarter. Longer term, is there the opportunity to continue to enhance margins in that D&E segment? And is there any way to frame kind of a longer-term target for that D&E segment for you guys?

Sherif Foda
I wish. I have to be honest, no, I cannot. Definitely, for the D&E segment what we keep doing is we try to always keep high-grading to the higher-tier services. But you have to do the other parts. You have to do all the rentals, all this type of segment that have a very low margin, because that's a lower-margin business. And still, this is going to be the majority of our work. So, every quarter, you will, fortunately or unfortunately, see that kind of fluctuation. It's a part of the business. And if we have large campaign of very strong logging, as we did this quarter, and thru tubing is very successful, a lot of people don't know, but we are a real leader in that business—in the thru tubing business. We almost own it in Oman. And when we look at this in the different parts of the world, and it's very successful, because we have now a very good and solid, large footprint of coil tubing. So, if you have the coil tubing and you have your thru tubing very successful and you start to add new technology, you keep enhancing those margins.

So, I wish I could tell you that the Q2 would remain and improve from there, but then I would not be saying the truth. It will really depend on the mix of D&E. It is, again, a very large pool of segments in that bucket that have a huge difference of margin profile. And if you look at the big guys, for example, this is huge difference between them, as well, right? So, if you look at open hole logging, exploratory type of nature, which, obviously, we do not play in that, this is very high margin. And compare this to drilling tool rental, it's completely different, right? So, I would say we obviously would love to keep adding those segments, and that's what we are working on. And if you have noticed in our prepared remarks, we already put the investment in two of those unique, I would say, drilling high grade or high level of technology with some innovative folks here in North America. And this is the other type of business we do. So, we put the investment. We put seed money, and hopefully, those technology come to fruition. And then, this will upgrade—keep upgrading your D&E portfolio to have higher-margin type of work.

George O'Leary
Very helpful, Sherif. Just to sneak in one more, if I could. If you think about discussions with customers over the next couple, three years, call it, 2021 through 2023, where is the dialogue most active? Who's kind of mulling over, adding the most longer-term projects? Said another way, which countries do you expect might drive the next leg of organic revenue and earnings growth?

Sherif Foda
So, definitely the NOC and the GCC will always be the most resilient, as we say, in the long term. These guys are there for the long term of the country. This is, again, the majority of the GDP, the majority of the foreign exchange. So, our growth definitely will always be with them. We are very, very linked to what happens in Saudi, Kuwait, UAE, Oman. And definitely, these guys do not plan for one or two years. These guys plan for 20 years, 30 years. So, they look at what they need to do.

And they don't look at costs, and that's what people have to understand. It's so completely different to North America. They look at what do they need, for example, for internal consumption by 2026, 2028, right? So, we need to develop gas fields for this purpose. If it's unconventional. It costs me more, but I will develop it, because it's better for the environment. It's better for the country. So, I would do it, even if it costs me more, even today at this oil price, I can burn oil and it's cheaper than developing unconventional gas. But I won't do it, because I'm responsible for the environment, and I want to have the lowest carbon footprint. So, I will develop those fields, and they have a plan all the way for 10 to 20 years. So, if you look at the country, let's say, for example, Kuwait, they have a 2040 plan. And that plan calls for which fields, how they're going to develop it, when they're going to start the drilling, and when they're going to start the production. So, definitely, our growth will be in the core GCC, and all our plans is done accordingly.

George O'Leary
Thanks, guys.

Operator
The next question is from Blake Gendron, Wolfe Research. Please go ahead, sir.

Blake Gendron
Yeah. Hey. Thanks. Good morning. I wanted to follow up on the frac operations. We have a pretty good idea as to how revenue and EBITDA are generative. That first fleet was in the

unconventional gas field. It's our understanding that the second fleet, well ahead of timeline, is, perhaps, by nature of the configuration of the work, a little bit less revenue generative. So, can you just help us quantify, I guess, or qualitatively understand the difference between the two? And then, as we revisit the pumping opportunity in the region broadly, it doesn't seem like scalability is an issue for you, since you're training local crews with some of the expats in the U.S. partially. So, can you talk about the overall opportunity, how you see it evolving over the next several quarters or years, and then your plan of attack, so to speak, in maximizing your capture of that opportunity in light of the scalability successes that you've had?

Sherif Foda
Thanks, Blake. So, the Jaffurah Basin or the unconventional fleet, you have to think about that like North America. So, this is very similar to the Permian, the Eagle Ford, etc. So, it's a pad, horizontal wells, multistage type of operation. You can be extremely efficient because you are not moving between wells. You are on the site, and you can sometimes they have three well pads, two well pads, four well pads, which means it enables you to do a lot of stages, which is eventually higher revenue. If you go—anywhere else in the region, it's completely different. It's a Middle East type of fleet. Middle East type of fleets are single well centric. The well has six to seven to eight stages. You go there, you do the well, then you have to rig down and mobilize to another site, rig up, and start there. So, if you can normally do two to three wells a month, you are good, right? So, this is the complete different scale and scope of all the fleets in the region versus that unconventional, I would say, high-grade or high-intensity type of work that is very similar to what people used to, because that's what they kind of know of in North America.

Middle East, Blake, if you go back 20 years ago, used to do one stage a month per fleet. So, it's totally different, because there was one frac for one zone. You frac it and leave and go to the next one. Now, you have more and more of the higher intensity work. So, if I look at it from the angle back to your maybe second part of the question, what is the future, the future is huge, because you would see more of single wells but multistage. So, if you go from four stage to 20 stage a well, that's already four times, five times. And then once you find a reservoir which requires an unconventional type of approach, the client will then look into putting well pads if it makes economic sense.

The difference, as well, that you always have to remember that the national oil company have, again, long-term view. And they do this with an exploration campaign first and an appraisal second and then development. So, they take their time, and they do it with science, not just pure statistics. So, they look at the exploration. They spend the money, and they look at this field and reservoir, how should they develop it. And once they do that, then they put the development plan. Therefore, you have the conventional fleet type of workflow. And, in addition to that, all the fracking in the Middle East so far is for gas. This is something, as well, people have to realize. It is not for oil, it's entirely for gas. They don't need to frac for oil, right? They are swimming in oil. So, they just go to the fields where they need it for internal consumption. So, most of those fields are tight. Not all of it is unconventional. A lot of it is tight sand and basically your frac to produce the gas.

So, in a nutshell, what we are looking for is to expand gradually our footprint. We need to ensure we only send fleets when we know they're going to get work. We do not want to do this overcapacity of North America and having a lot of horsepower and then people do not know what to do with it. What we need to do is we target the fleet. We work very closely with our friends in NexTier and put the fleet to work and go to the next opportunity. So, I would say, our target definitely is to have four, five fleets working professionally by next year.

Blake Gendron
That's helpful color. Thanks for that rundown. And then, the flip side, on the unconventional gas side, I guess gas development broadly in the region is, of course, an infrastructure. You picked up an industrial pipe cleaning business with SAPESCO that you, I think, had mentioned is 10 times the addressable market in the entire region versus what SAPESCO is doing locally in Egypt and offshore. Can you talk about maybe the timeline for that opportunity? I understand it's longer term tendering, obviously. You're working with E&C companies as opposed to your typical upstream contacts. But I would imagine the pull-through of this specific segment through the broader region where you have an upstream platform is potentially pretty impactful. Can you just talk about that opportunity and sort of the timeline around it?

Sherif Foda
It's definitely with what's happening now in the world, this is type of work that sometimes people would delay it, as well, right? Because there is a lot of projects of E&C that got delayed due to the COVID-19. So, majority of those new projects were from Southeast Asia. And they were planning to start some of these big projects in Q1, Q2 2020, and they have gotten delayed until end of the year or to the following year. However, as we said, we are tendering for this type of work which has a six to nine months cycle in tendering. Once you get awarded, then you start the work. I would say that, hopefully, we will see one or two awards towards the next year in 2021. And if we get two of these projects next year, we will be very, very happy.

So, I would say that market is more or less in the $300 million. So, capturing, I would say, 10% of it would be a very good start. Again, some of this work is getting delayed just purely to the fact of no travel. People have to understand that the Middle East is still under a lockdown. Their airports are not open until now. So, all this travel we do here in Texas, etc., we cannot even go there until now. So, it's very restricted. And that's again, back to my comments, that's why we were very pleased and blessed with our guys that managed to maintain 100% capacity despite all these restrictions.

Blake Gendron
Got it. Thanks a lot. I'll turn it back.

Operator
The next question is from Andres Menocal, Evercore ISI. Please go ahead, sir.

Andres Menocal
Hey. Good morning, Sherif and Chris. So, my first question is actually around R&D. Can we get an update on the research and technology center, NORI? I'm just curious to hear if there's been any key updates since we last connected in 2Q and what the pipeline might look like in terms of new technology introductions through this year.

Sherif Foda
So, obviously, with the restriction, we are working on the building. So, it will be delayed, I would say, maybe one or two quarters due to the fact that people are not going. So, as I mentioned, you cannot travel. So, all the labs and all the work that we put together is still intact. The construction and making the lab and sending the team with our partner companies are delayed until Saudi opens the border, and I'm able to send the folks down there to put the fleet—sorry, to put the equipment and the setup together. So, I would say it's going to get delayed maybe six months.

Andres Menocal
Okay. Fair enough. Thank you for that update. And then, my next question is more on just the competitive landscape. So, obviously, we've seen your company respond commendably to Coronavirus and just this downturn and just a lot of issues that have come up. You guys have obviously proven that out. Just curious to hear how the service quality from your competitors has either worsened or improved, and if you think that, that is sustainable and what that could do to potential M&A opportunities down the road.

Sherif Foda
So, I would say that obviously, I cannot speak about them. I would just tell you that we, today, score number one or number two in everything we do. So, all the segments, we definitely have the top position, which was always our goal. And very happy to see that, actually, for the second quarter, we scored almost number one in most of the service lines that we are involved in, right, which means that we obviously overtook the big guys in some of those segments. And we are very far from the smaller, local companies. So, as we put the company together, and we said this from 2018, we are not here to look into are we competing with what we call the second-tier level, we are here to be the top of the industry, meaning our service quality needs to be impeccable. So, when we go on location, we have an efficiency of 99.7%, 99.8%. That's how we measure ourselves. We compare ourselves in HSE, in service quality, in everything, to the best in the industry, not compared to this country or these local guys. And that's the whole philosophy of the setup is how can a national company become the best-in-class in everything they do.

Definitely, the service quality overall in the industry has deteriorated with a lot of the competitors or the landscape due to the fact of COVID-19. So, companies that depended a lot on some of the expertise on the rotational scale, now they cannot get those guys and they consequently have issues. And some of their people are stranded four, five, six months. There is a limit to how much people can take. So, overall, that's how we manage to keep replacing some of the competitors in some of the countries, and that's how our revenue keep growing. And our plan is to keep growing in the following quarters. It's because we plan it. We know exactly where and how we're going to manage it. And we plan, as well, which is not a small task, all the spare parts and inventory and everything. And that means that we maintain a buffer to ensure that we can cope when somebody else cannot.

Andres Menocal
Right. Okay. Thank you for that. Thanks, Sherif. I'll turn it back to the queue. Thanks.

Operator
We have a question from Igor Levi, BTIG. Please go ahead, sir.

Igor Levi
Good morning. So, as the number of daily COVID cases in Saudi and UAE are now down about 75% from peak levels, are we seeing any type of opening up? And is there some path to improvement around the logistical constraints in the region? And could this possibly have a positive margin surprise once it happens?

Sherif Foda
I would say, obviously, knowing the countries, they are doing an amazing job, all of them, the GCC have been outstanding in the way they have handled this. So, definitely, they have calculated how they're going to do that. I would say Dubai is already softening and have very clear rules how can you get in. Even for tourists, they can come in. But with the very clear protocols, they have to test before leaving, and they have to test as soon as they land. If they test negative after 48 hours, then they can leave the hotel, etc., etc.

I would say that things will ease up. I wouldn't say open up. They will ease up. You remember, they still have curfews driving in some countries. So, saying positive margin, I wouldn't say so, no. I don't think so. I think, as I said, we absorbed all these costs as part of our business. I know others take it outside the results. But I would say even if when they ease up, I'm not going to, all of a sudden, put now four people in an airport cab or change the protocol of the sanitization or change the way we have adapted to work. So, we are keeping the protocols. We are keeping the costs. And we said it is going to be part of our business, part of our results. So, I do not see any difference in margins.

Igor Levi
Thank you. And as we start to model SAPESCO, has SAPESCO performed in 2020 similar to 2019 levels like the rest of the company? Or have they seen more of a decline? How should we model that for the second--?

Sherif Foda
No, definitely, they see a decline, because they are in North Africa, So, they performed like our part of the business in this part of the world. As I mentioned earlier North Africa and Iraq are

the worst in the MENA region and Egypt is part of that. So, definitely, they have the same drop exactly like ours in that part of the world. North Iraq is the worst, let's put it this way, because it's like North America. So, these guys dropped 80%, 90%. But North Africa is the same drop that we always say, like approximately 40-50%. We manage better, and SAPESCO did the same, because we are a smaller company. So, we did not see this minus 50%, minus 60%. But, definitely, we have the minus 30%, yeah, at least.

Igor Levi
Okay. Thank you. I'll turn it back.

Operator
Ladies and gentlemen, we have reached the end of the question-and-answer session. I'd like to turn the call back over to Sherif Foda for closing remarks. Please go ahead, sir.

Sherif Foda
Thank you very much. I'd like to thank you all for your patience and your time, and we're looking forward for another solid quarter going forward. Thank you very much.

Operator
This concludes today's conference. You may disconnect your lines at this time and thank you for your participation.