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UNIT CORP. /*Tulsa, Oklahoma*

Time And Patience Pay Off In Search For Rigs

By Marilyn Alva
Investor's Business Daily

Energy analyst Jack Aydin always asks the same question of top executives at Unit Corp.: "How do you buy rigs so cheap?"

Their answer, he says, is always the same: patience. They take their time and shop around the world.

Earlier this month, that patience paid off. The company acquired three land rigs — two from Israel and one from Indonesia — for about $8 million. That brought the company's total rigs to 55.

Aydin, who's with McDonald Investments Inc., figures it was a great deal — even with the $3 million Unit must spend to refurbish the rigs and ship them back to the U.S.

"Had they bought these rigs over here, they would have paid $8 million to $10 million apiece," he said.

Unit is a hybrid energy company, with a focus on drilling and exploration/production. Both segments are benefiting from the robust energy market.

Even with recent record-high gas prices, Unit's management has attended to its two business segments with a cautious eye on the bottom line and an aversion to big risks.

"They're not hitting home runs," said Andreas Vietor, analyst with Stifel, Nicolaus & Co. "They're hitting solid singles, doubles and triples."

Analysts expect that hitting streak to continue even after longtime Chief Executive King Kirchner retires in June. His successor, John Nikkel, has been president and chief operating officer since 1983.

"(Nikkel) and King are 100% eye to eye on everything," said Brad Beago, analyst with Credit Lyonnais Securities.

Despite its conservative management style, Unit isn't about to be left behind during up cycles. For 17 straight years, the firm has met its goal of replacing 150% of each year's production reserves. That business is a lot more steady than the feast-or-famine drilling business.

Unit's daily gas production has gone up 34% in the last two years, Vietor says.

"They go out and drill the bread-and-butter wells," he said.

Those wells, located in Oklahoma, have longer production lives than those in the Gulf of Mexico, where Unit also has interests.

Two-thirds of Unit's earnings before interest, taxes, depreciation and amortization, or EBITDA, come from its higher margin exploration and production business, Beago says. He estimates such earnings will hit $81 million this year, a 20% increase from a year earlier.

With more than 50 active land rigs, Unit is far from the nation's biggest driller. The biggest, Nabors Industries Inc., has 253 active land rigs, according to Land Rig Newsletter. It's followed by recently merged Patterson-UTI Energy Inc., with 230 active rigs.

Of the publicly held land-rig companies, Unit's market share is about 4% vs. 21% for Nabors, the newsletter says.

Still, Unit has expanded its rig fleet more than 60% in the last two years.

Good thing, too. In today's fuel-starved energy environment, drilling is where the action is. Day rates on Unit's land rigs rose to $8,600 in the first quarter vs. $5,500 two years ago.

Beago sees Unit's earnings from drilling doubling this year to $53.5 million. That's after more than tripling in 2000.

Most industrywide drilling efforts have focused on relatively shallow wells. But drilling in deeper wells could provide even more upside for Unit, says Robert Christensen Jr., analyst with First Albany Corp.

Natural gas reserves below 15,000 feet are largely untapped. That's where future exploration must occur to meet mushrooming demand, Christensen says. For Unit, that trend could prove a bonanza.

"Unit is the most leveraged company to that effort," Christensen said, noting that it has the deepest rig fleet on a per-unit basis of any driller in the U.S.

On the drilling side, first-quarter revenue moved up 63% from a year earlier to $35.5 million.

Revenue from Unit's oil and natural gas operations rose 136% to $34.7 million. The main driver? Higher gas prices and increased production.

Unit posted total first-quarter revenue of $70.4 million, up 89% from a year earlier. Earnings grew more than fivefold to 53 cents a share.

The company plans to drill about 130 wells this year, up 29% from last year.

Meanwhile, gas prices have come down from their peak in December. But they're still twice as high as their historic range.

The big question is where those prices will go next. If they slip back to historic levels, it would put a damper on the entire oil and gas industry, Vietor says. In addition, day rates on rigs would drop.

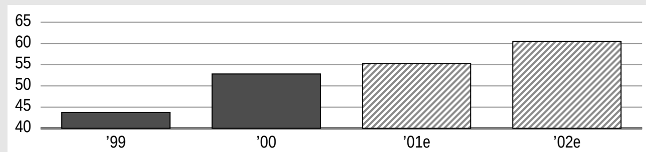
"But if gas and oil prices stay high, (there) shouldn't be a hitch," Vietor said. "And we're bullish on commodity prices for the next couple of years."

Analysts polled by First Call expect Unit's earnings this year to reach $2.01 a share, more than double last year's figure. They see earnings gaining another 15% to $2.31 in 2002. The stock trades as UNT near 21.

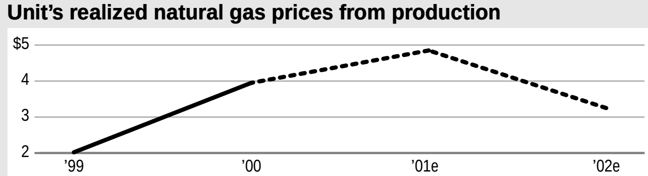
Energy Jolt

Unit Corp. does business in contract drilling, plus exploration and production. The two segments are benefiting from higher gas prices and rig day-rate increases

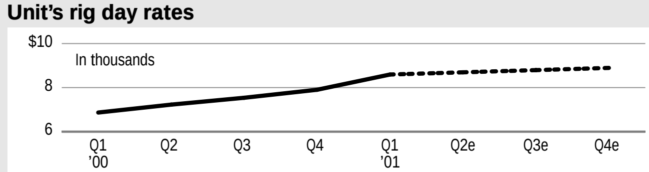
Unit's daily natural gas production, in thousand cubic feet



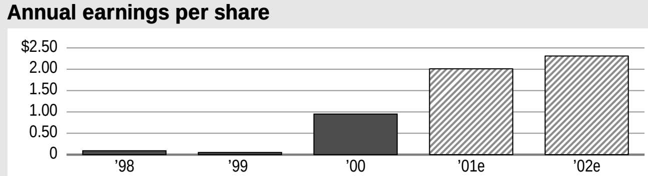
Unit's realized natural gas prices from production



Unit's rig day rates



Annual earnings per share



Sources: Credit Lyonnaise Securities, First Call