



Oilfield Services: On the Cusp of a Boom

Description

In the first quarter of 2013, oilfield services companies posted results that have given reason to be optimistic about the prospects for the industry. While numbers were hurt by pricing pressure, there were improvements in utilization, signaling an increase in activity in both Canada and the United States. **Trican** (TCW:TSX) for example, saw a 39% increase in revenue compared to the fourth quarter of 2012, as wells drilled increased 31% compared to the fourth quarter.

While the market for oilfield service companies is still very competitive, with pricing pressure evident in Canada as well as the U.S., management teams are starting to sound more optimistic about 2013 and beyond.

The most important part of the first quarter's results was the outlook that the companies gave. And there have been positive signs. Utilization rates at Trican, for example, improved last quarter to 65%, and management expects continued improvements going forward.

Earnings estimates for the group are also looking extremely positive. As you can see in the table below, 2014 is expected to see significant improvement in earnings power for the group. **Calfrac** (CFW:TSX) and Trican stand out in this regard.

	EPS			Growth		P/E 2014
	2012	2013e	2014e	2013e	2014e	
Calfrac	2.17	1.22	2.68	-77.9%	119.7%	11.3
Ensign Energy Services (ESI:TSX)	1.42	1.13	1.40	-25.7%	23.9%	11.6

Precision Drilling (PD:TSX)	0.81	0.74	0.88	-9.5%	18.9%	10.2
Trican	0.37	0.43	1.27	14.0%	195.3%	11.0
Trinidad Drilling (TDG:TSX)	1.05	0.67	0.78	-56.7%	16.4%	9.9

Stock prices also signify that things may be improving in the industry. Historically, the stocks start their rise roughly six months prior to the fundamentals improving. So we will keep watching, but thus far, Calfrac stands out in this regard, as its stock price has risen almost 20% since January.

We also have seasonality going for us in this investment thesis. Historically speaking, the best time to get into oil services stocks is in the summer, just in time for the fall drilling season.

Valuation is attractive at this point, with stocks trading at low-double-digit price-to-earnings multiples off of 2014 estimates. Consider that peak earnings are even higher than these 2014 estimates and you can see just how inexpensive these stocks are.

Lastly, and looking longer term, the increasing investment in liquefied natural gas, or LNG, in North America will translate into many different money-making investment opportunities. One opportunity is in oil services companies. As these LNG projects become a reality, there will be a surge of demand for natural gas to fill the LNG contracts — which means that drilling activity will be on the rise. Calfrac and Trinidad Drilling, for example, have both said that they are seeing a growing interest from national oil companies and large international oil and gas companies with respect to their plays, such as the Montney, Horn River, Duvernay and Fort Laird, that could supply LNG plants.

The bottom line

The oil services group has begun to show promising signs of life, with many of the pieces of the puzzle coming together for the next big boom.

Of all the companies, Calfrac and Trican stand out to me — they are leaders in the industry, have some of the best expected earnings growth rates, and possess strong, healthy balance sheets.

Energy service stocks are known for their cyclical nature and we appear to be entering an upturn for the group. If timed properly, this collection can offer sizeable gains over relatively short periods of time. The Motley Fool's [special FREE report](#) "**3 U.S. Stocks Every Canadian Should Own**" profiles 3 companies that also offer sizeable gains, but are far less volatile than the energy-services space. To download this report at no charge, simply [click here now!](#)

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Fool contributor Karen Thomas owns shares of Precision Drilling. The Motely Fool does not own shares in any of the companies mentioned at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CFW (Calfrac Well Services Ltd.)
2. TSX:ESI (Ensign Energy Services Inc.)
3. TSX:PD (Precision Drilling Corporation)
4. TSX:TCW (Trican Well Service Ltd.)
5. TSX:TDG (Trinidad Drilling Ltd.)

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