



Precision Drilling Reports Optimistic Second Quarter Results

Description

Reporting season for the oil services companies is just beginning, and **Precision Drilling** ([TSX:PD](#)), Canada's largest drilling contractor, has led the way with results that were seemingly worse than last year, but managed to beat expectations and provide an outlook that gives reason for optimism.

First off, let's do a quick review of Precision Drilling's second quarter results. We have to know where we've been to be able to decide where things are going.

Overview of the Quarter

Q2 Results (\$mln)	Q2'13	Q2'12	% Change
Revenue	379	382	-0.8%
EBITDA	88.2	97.2	-9.2%
Net income	0.47	18.3	-97.4%

As you can see, the quarter was dismal relative to last year and was characterized by lower industry activity in Canada and the U.S., which was offset by higher day rates. EBITDA decreased 9.2% and EBITDA margins were 23.3% versus 25.4% in the second quarter of 2012.

The following chart breaks down the day rate increases between Canada and the U.S.

Rig revenue per day	2013	2012	% change

Canada	22.28	20.65	7.9%
US	23.85	23.14	3.0%

While drilling days in Canada declined 9%, day rates improved by almost 8%. In the U.S., drilling days declined a whopping 17% while day rates increased 3%. The reason for this seemingly contradictory trend is that the industry is making greater use of “Tier 1” rigs, which are rigs that can drill the same well in half the time and bore much longer horizontal sections underground.

In fact, Precision Drilling is retiring older Tier 3 rigs in favour of the newer and more technologically advanced Tier 1 rigs because going forward, the drilling industry’s growth and success will be driven by improved drilling efficiency, safety performance, and environmental performance.

Outlook: Reasons for Optimism

Management indicated that in Canada, third quarter demand is ahead of the comparable period last year, and that this trend is expected to continue. Indications look good for improvements into Q3 and Q4 and modestly improving demand is expected.

With respect to oil and liquids, price differentials are easing due to rail transportation of oil and Canadian producers are certainly benefitting. Montney gas and Duvernay drilling is expected to be strong, driven by natural gas and natural gas liquids.

Get ready for LNG

Furthermore, in a move that demonstrates growing confidence in a Canadian oilfield rebound, Precision Drilling will increase its 2013 capital budget by \$121mln to \$654mln. This adjustment was made in order to add 5 new super series rigs to their building plans, in response to early customer activity related to the LNG build out. Precision Drilling is seeing interest from participants in future LNG projects who are looking for specifically designed rigs. Healthy activity levels among LNG participants are expected in emerging resource plays in BC and Northwest Alberta. Support for development of the LNG projects is strong, and this is therefore a major growth area for the drillers.

Bottom Line

While Precision Drilling’s second quarter results were dismal, they showed signs of strength and more importantly, the outlook is positive. Things seem to be falling into place for the industry and Precision Drilling’s stock price has begun to reflect this, increasing 23% year-to-date. Stay tuned, as **Trican Well Services** ([TSX:TCW](#)) and **Calfrac** ([TSX:CFW](#)), will be reporting on July 31, providing us with more details to add to our analysis of this fast moving industry.

Yield is important – no, yield is *crucial* – to our portfolios. All 3 Energy service companies mentioned here pay a nice yield, but given the cyclicity of their industry, tend to keep income seeking investors on their toes. The Motley Fool has assembled a free list of [13 other high-yielding stocks](#) that are much more reliable. [Click here](#) to check out the list today.

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Fool contributor Karen Thomas owns shares in Precision Drilling. The Motley Fool doesn't own shares in any of the companies mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:PD (Precision Drilling Corporation)

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