



3 Hidden Clues That Point to a Bright Future for Precision Drilling

Description

All too often investors get caught up in the short-term headline numbers of a company's earnings report and miss the bigger picture. It's easy to do, a few pennies off on earnings or a big jump in revenue can indicate what a company's future holds. However, oftentimes the key driver of a company's future is hidden in a company's earnings release simply because investors aren't tuned in to see it.

That's the key takeaway I had from reviewing **Precision Drilling's** (TSX:PD, NYSE:PDS) latest earnings release on July 25. It seemed like both analysts and investors were just happy the company didn't lose money on the quarter, while being pretty pleased that its revenue only dropped by 1% year-over-year. In focusing on just those numbers however, investors might have missed three clues that could send its stock soaring over the long-term.

Higher day rates

While drilling activity was down in North America, Precision was able to offset that with higher average day rates to beat revenue estimates. Higher day rates are really important because the company has been upgrading its fleet with newer rigs meaning that investment is starting to pay off. The biggest jump was seen in Canada where day rates jumped to \$22,276 from \$20,649 or about 8%. The upgraded fleet was key to the company's ability to overcome competitive pressures to generate increasing day rates. This is an important clue into Precision's future because as the North American onshore market improves, Precision's business should improve at even higher rates.

Positioning for natural gas exports

The second clue that Precision's business could be set to rebound is that it's starting to see rigs being contracted to drill natural gas. The company noted that two rigs were contracted for northwestern Alberta natural gas drilling. In addition to this, the company expects to see an increase in activity this summer in delineation drilling in northeastern British Columbia. These are all related to potential natural gas export projects under consideration.

One such LNG export terminal is the proposed Kitimat LNG, which is being developed by U.S. based **Apache** (NYSE: APA) and **Chevron** ([NYSE: CVX](#)). The terminal could start exporting 1.4 billion cubic

feet per day (Bcfe/d) of natural gas by late 2017.

These projects are important to Canada's future as the country currently uses about 9 Bcfe/d. Meanwhile, its biggest customer, the United States, once imported 9.9 Bcfe/d but that's down to just 5.4 Bcfe/d and is expected to drop further to just 3.1 Bcfe/d by 2018. Without exports, Canada wouldn't need very many rigs to meet its needs. On the other hand, some believe Canada could be producing 20 Bcfe/d by 2025 if LNG exports really take off.

International growth

Finally, investors cannot overlook the fact that Precision is making great strides to diversify its geography outside the still sluggish North American market. Last year, just 3% of its revenue was produced outside U.S. and Canada, however that will change over time as the company continues to expand. In fact, Precision reported this quarter it has more than doubled its international drilling rig utilization days over last year.

Precision currently has rigs in Mexico, Saudi Arabia and Iraq and will be adding rigs in Kuwait next year. With just nine rigs currently operating in its international segment, compared to 120 in the U.S. and Canada, Precision has a lot of room to grow and it expects to have a dozen rigs working internationally by the end of the year.

Final Foolish thoughts

By looking past the headlines, investors can get a much better understanding on where a company like Precision is heading in the future. In this case, investors can see that day rates are heading higher, demand for natural gas drilling rigs are starting to pick up as producers position for exports, and Precision's international business is picking up steam. Taken together, it would appear that Precision's future looks very bright.

However, the big money in Canada might not be in natural gas or even oil. If you're looking for the commodity that could really power long-term returns, your portfolio could be best served by uranium – the key ingredient for nuclear power. To learn more about the profit potential, The Motley Fool has prepared a Special FREE Report that will clue you into the two best uranium companies in Canada. It's called "[Fuel Your Portfolio With This Energetic Commodity](#)," and you can receive a copy at [no charge](#)!

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Fool contributor Matt Dilallo doesn't own any of the stocks mentioned at this time. The Motley Fool owns shares of Apache.

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