Calfrac's 3rd Quarter Warning: Drilling Down to What's Important

Description

In a recent news release, **Calfrac** (TSX: CFW) announced three things: the closing of their acquisition, a contract award, and finally, an operational update that warned investors that the company's third quarter results will fall below expectations due to lower than expected results in the Canadian operations. Let's drill deeper.

In Canada, which accounted for 44% of revenue in the first half of 2013, operating results will be below expectations due to wet weather in July and August. Wet weather makes access to drilling sites difficult so the work gets delayed. Calfrac's closest competitor, **Trican** (TSX: TCW), may very well also be hit on its Canadian results due to weather. Trican's Canadian operations account for 45% of revenue.

In the U.S., which accounted for 38% of revenue in the first half of 2013, Calfrac's operating income will meet expectations, as equipment utilization remained strong. Pricing is still competitive in this market and is expected to remain competitive in the foreseeable future until the overcapacity issues are resolved.

With this in mind, let's focus on what really matters. That is, the longer term business conditions and outlook.

The Good News

In Canada, for the fourth quarter and into 2014, Calfrac remains relatively optimistic. Utilization is expected to increase and pricing should follow shortly thereafter. As for Trican, at the time of its second quarter earnings release, management also expressed optimism for the Canadian market in the medium term. They expect 2013 activity levels to be above last year and they expect the Canadian market to grow in 2014 due to further development of the Duvernay and liquefied natural gas (LNG) related activity in areas such as the Montney and Horn River.

Calfrac also announced that it has secured a three year contract with minimum monthly commitments with YPF S.A., Argentina's largest energy company. This is a very positive development in Calfrac's Latin American business, which currently accounts for just over 7% of revenue.

Finally, Calfrac announced that its acquisition of Mission Well Services has closed. Mission is focused in the Eagle Ford shale region of Texas, and the acquisition has provided Calfrac with the platform to enter this region and achieve greater geographical diversification.

Bottom Line

No investor likes to hear about an earnings warning as they tend to knock a company's stock back, which can be stressful. Looking behind Calfrac's warning however, we can take comfort because the issues are weather related and therefore short term in nature. The work has simply been delayed, not cancelled. Management is optimistic about their business for the rest of the year and into 2014, and this is consistent with what its customers and competitors are saying.

Calfrac will report third quarter results on November 6. Oil services stocks such as Calfrac can provide very attractive returns to investors, but must be watched more closely due to the volatility inherent in their business. Investors should be very interested in pricing and utilization rates when third quarter results come out.

Looking for more expert advice?

The Motley Fool Canada's senior investment analyst just unveiled his top two stock ideas for new money now. And **YOU** can be one of the first to read his buy reports — just click here for all the details.

Fool contributor Karen Thomas does not own shares of any of the companies mentioned. The Motley Fool does not own shares in any companies mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CFW (Calfrac Well Services Ltd.)
2. TSX:TCW (Trican Well Service Ltd.)

Category

1. Investing

Date
2025/06/30
Date Created
2013/10/07
Author
karenjennifer