



Precision Drilling and Mullen: What Investors Should Know

Description

Precision Drilling ([TSX:PD](#))([NYSE:PDS](#)) and **Mullen Group** ([TSX:MTL](#)) both reported fourth-quarter and year-end results today with some consistent themes as well as some notable differences. Here is what investors should know.

Revenue momentum is back

Mullen experienced a 6.1% increase in revenue for the quarter signaling continued positive momentum after an 11% increase in revenue in the third quarter of 2013. From the third quarter of 2012, year-over-year revenue had been declining and it is encouraging to see that Mullen has maintained revenue growth for the second quarter in a row. The oilfield services segment, which accounts for 62% of revenue increased 7.9%, while the trucking segment, accounting for the remainder of revenue, increased 3.1%.

Precision Drilling also reported good revenue growth of 6.2% in the fourth quarter. This follows revenue that was pretty much flat in the third quarter of 2013. Revenue growth was driven by higher international and U.S. drilling activity and higher pricing in the Canadian contract drilling.

Operating margins mixed

Mullen Group reported fourth-quarter results that were below expectations due to margin pressure. Operating costs were higher than normal, thus driving operating margins 6% lower versus last year. Productivity was lower than usual and operating expenses such as wages, fuel, and repairs and maintenance were higher than expected. Mullen has attributed much of this to the difficult weather conditions that we experienced.

Precision Drilling, on the other hand, saw EBITDA margins increase over 5% to a 35% margin for the fourth quarter of 2013, as increases in activity levels resulted in economies of scale, and lower costs in U.S. contract drilling benefitted the cost profile there.

Big swing to profitability for Precision

Precision generated EPS of \$0.24 per share versus a loss of \$0.42 per share in 2012. This is obviously a big improvement that investors are taking notice of. EPS for the year was \$0.66 versus \$0.18 in 2012.

Optimistic about the year ahead

Mullen is quite optimistic about the oilfield services segment in 2014, as capital spending by E&P companies is expected to increase between 8% and 10%. Management believes the trucking segment will have a more difficult time to grow.

Precision Drilling management stated that year-to-date, drilling activity in both Canada and the U.S. has been similar to levels seen in 2013. Demand for Tier 1 equipment however, which includes more technologically advanced rigs that can drill the same well in half the time and bore longer horizontals, continues to be strong and since Precision has made the strategic decision to concentrate on these rigs, the company is benefiting from this.

In fact, Precision 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

2 more oil services companies to watch

Trican ([TSX:TCW](#)) and **Calfrac** ([TSX:CFW](#)), both major Canadian oilfield services companies, are expected to report their fourth quarter and year-end results on February 26. Third-quarter results for both of these companies were weak, with revenue declining 8% at Trican and 7% over at Calfrac. Based on what we are seeing in the industry, investors should look for improving results when these two companies report as well.

Foolish bottom line

With improving drilling activity and improving pricing in the North American market, oil services companies are continuing to gather momentum. While the stock prices have already been anticipating this, investors still have time to jump in and benefit from these improving fundamentals.

Precision Drilling has more leverage to the drilling cycle and fundamentals, is more volatile an investment, and has a 1-year return of 21.4%, while Mullen has less leverage to the drilling cycle, is more diversified and therefore less volatile, and has returned 13.7%. Mullen has a dividend yield of 4.5% and Precision has a dividend yield of 2.2%.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:CFW (Calfrac Well Services Ltd.)
3. TSX:MTL (Mullen Group Ltd.)
4. TSX:PD (Precision Drilling Corporation)
5. TSX:TCW (Trican Well Service Ltd.)

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