



## Why Precision Drilling Corporation Plunged 9% Today

### Description

**What:** Falling energy prices are crimping the profits of oilfield service companies, and the industry now faces an uncertain future. This worry sent shares of stocks like **Precision Drilling Corporation** ([TSX:PD](#))([NYSE:PDS](#)), **Ensign Energy Services Inc** ([TSX:ESI](#)), and **Trican Well Service Ltd** (TSE:TCW) plunging on Wednesday.

**So what:** Oilfield service firms provide everything energy producers need to find crude and haul it out of the ground. And when oil prices were trading over \$100 a barrel, this was a hot area for investors. But now that prices have tumbled, service companies are under pressure.

On Tuesday, the Petroleum Services Association of Canada revised its outlook for drilling activity sharply downward. According to the industry group's new forecast, only 7,650 new wells will be drilled in the country this year, 24% lower than the organization's original estimate from November. This would also mark a 32% drop from the 11,226 wells drilled in 2014.

As a result of the big slowdown in drilling activity, service names are being pushed to cut prices for their struggling customers. Over the past few weeks, major oil and gas producers have started asking for price breaks on their service agreements, given that energy prices continue to fall. That means already tiny profits could be wiped out entirely.

"The rapid decline in oil prices over recent weeks is taking hold," Mark Salkeld, president and CEO of PSAC, said in a press release. "There is enormous pressure on services companies to cut costs even in the face of slim margins."

However, the impact on service companies could be even worse than these numbers suggest. In order to satisfy contractual obligations on their leases, oil producers may continue to drill, but not draw from, new wells. Fewer jobs are expected to be available for service companies, which typically work on oil and gas wells after rigs finish drilling.

**Now what:** Even if oil prices recover from here, there's no end in sight for service companies. According to a recent report from **Credit Suisse**, the oil industry's capital spending budget is expected to fall 35% in 2015. It could take six to eight years for the rig count to return to 2014 levels.

That is an all-out depression for the industry. Investors should just stay away.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:ESI (Ensign Energy Services Inc.)
3. TSX:PD (Precision Drilling Corporation)
4. TSX:TCW (Trican Well Service Ltd.)

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## Author

rbailieul

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