ShawCor Ltd.'s Global Approach Suggests a Long-Term Buying Opportunity

Description

There's no doubt these are tough times for pipeline companies. Drastically weak oil prices have hit pipeline stocks hard, and 2015 is shaping up to be a challenging year. However, **ShawCor Ltd.** (TSX:SCL) is taking the downturn in stride and is focusing on its long-term strategy of building an integrated global energy services company.

The keyword here is "global." In its latest earnings report, ShawCor conceded that that the decline in oil prices that started in the fourth quarter of 2014 would cause a decline in drilling and well completions in 2015, which would likely cause the company's revenues to decline on a year-over-year basis.

However, ShawCor noted the downturn is primarily focused on its activities in North America. "Outside of North America, the company's performance will largely be determined by its execution of projects that are in the order backlog." That's a plus for investors, as ShawCor has a current backlog of $766 million in Europe, the Middle East, Africa and Russia (EMAR), which accounts for 60% of the backlog. ShawCor also has Latin American and Asia Pacific divisions, with more than 90 manufacturing and services facilities around the world.

This growth in global revenue will help reduce the impact on revenue of the North American oilfield slump. ShawCor warned that there remains the risk that income from operations could decrease at a greater rate than revenue on a year-over-year basis. And there is risk, despite ShawCor's mostly positive outlook, in the company's key pipeline and pipe services segment. North America accounted for 46% of Q4 2014 revenue, while EMAR accounted for 33% of revenue, followed by Latin American and Asia Pacific, each with 10% of revenue.

"There can be no doubt that the company will be impacted in 2015 by the expected pullback in North American well completions following the sudden and steep decline in the global price of oil," said CEO Steve Orr in the company's earnings report. "However, the company is an excellent position to weather the downturn."

In Q4 2014, ShawCor reported revenues of $500 million, a 22% increase from the same period in 2013, and a net loss of $20.7 million, compared with a gain of $22.4 million in Q4 2013. Analysts reacted predictably to ShawCor's Q4 results, with TD Securities and National Bank Financial both reducing their price target on the company's stock. However, TD kept its "buy" rating on the shares, while National Bank's "outperform" rating was also left intact.

The downturn hasn't prevented ShawCor's management from continuing to seek strategic acquisitions, and ShawCor recently purchased Dutch company Dhatec for an undisclosed amount. Dhatec designs, assembles, and markets engineered pipe logistics projects and services. Dhatec had estimated revenues of US$25 million in 2014.

All in all, ShawCor's sensible and balanced approach to the often-volatile pipeline sector suggests the company may be an outlier among its peers. And that's good news for investors looking to invest in the sector, while mitigating risk.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MATR (Shawcor)

Category

1. Energy Stocks
2. Investing

Date
2025/07/17
Date Created
2015/03/09
Author
dwatt