



## Is Precision Drilling Corporation a Bellwether for Canadian Energy Stocks?

### Description

Calgary-based **Precision Drilling Corporation** ([TSX:PD](#))([NYSE:PDS](#)) released its first-quarter earnings results on Monday. Profit plunged 76% as drilling demand fell well below expected forecasts. With major Canadian energy companies releasing their own quarterly results starting later this week, is Precision a sign of things to come?

Precision's Q1 net earnings were \$24 million or \$0.08 per diluted share, compared to earnings of \$102 million of \$0.35 per diluted share in Q1 2014. Revenue sank 24% to \$512 million, mainly due to lower drilling activity in the U.S. and Canada, Precision said. Still, the results beat analysts' estimates, which had EPS of \$0.04 per share and revenue of \$491.5 million.

"During the first quarter, demand for North American land drilling services failed to meet even the most pessimistic forecasts as our customers continue to seek ways to reduce spending and budgets in this low commodity price environment," said Precision CEO Kevin Neveu.

Neveu said the company has been able to mitigate the full impact of the industry slowdown through a number of measures including adopting a variable pricing model, cost management, and guarantees for some of its customer rig contracts. "We have consolidated three operating facilities across our North American operations and we have reduced our salaried headcount by approximately 14% and field headcount by approximately 2,500."

Industry activity in Canada during this year's spring breakup was 53% below 2014 levels, Neveu added. In the U.S., most oil-weighted regions are more than 50% below November 2014 peak activity levels, he added.

Corporate spending in the oil patch is expected to decline significantly as more Q1 earnings results start to roll in this week, starting with **Cenovus Energy Inc.** on April 29 and **Suncor Energy** on April 30. Macquarie Group estimates that 47 Canadian energy companies are expected to spend a collective \$38.7 billion this year, down 30% from \$55.2 billion in 2014.

Precision's poor results had little impact on the driller's stock price, which was up 1% Monday morning. That's due to a couple of factors: the results beat analyst estimates and Precision maintained its

quarterly dividend at \$0.07 per share. But it's hard to recommend a stock in an industry relying on crude oil prices, which many industry watchers believe could still decline even further, despite a recent bump to the plus side. This is a play for bargain hunters only.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:PDS (Precision Drilling Corporation)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:PD (Precision Drilling Corporation)
6. TSX:SU (Suncor Energy Inc.)

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