



## Can We Call a Bottom in Precision Drilling Corporation?

### Description

After the pain of the downturn in 2009, **Precision Drilling Corporation** ([TSX: PD](#))([NYSE: PDS](#)) has learned a few things. The company has taken initiatives since then to ensure it is in a better position for the next downturn. Well that next downturn is here, so let's look at how Precision is doing. The company took three initiatives: to focus on maintaining balance sheet strength; to have a long-term contract backlog; and to invest in a young high-performance fleet. Let's look more deeply into each of these.

#### Balance sheet strength

The volatility in earnings and losses in the sector should lead investors straight to the balance sheet to evaluate the financial strength of these companies and therefore the company's ability to withstand further losses. Precision Drilling has \$450 million in cash on its balance sheet, total debt of \$2 billion, and covenant relief from its lender, so the company has full access to its revolving credit facility during the downturn.

#### Long-term contracts

At this time, the company has 110 rigs committed under term contracts for the second quarter. For the full year it has contracted 104 rigs, and management expects to exit 2015 with 82 contracts in place and 58 contracts for 2016.

#### Young high-performance fleet

A big proportion of Precision's rigs are Tier 1 high-performance rigs. The company has invested in upgrading rigs and in new builds to the point where it is now reaping the rewards of a young, high-performance fleet. Management commented that even though the industry is still in decline, they are beginning to see opportunities related to upgrading to better performing rigs. This means that they expect their Super Series rigs to see increased utilization, even in this market.

While we cannot call a bottom yet, as uncertainty remains high and things will likely continue to be difficult this year, it looks like the stock is definitely pricing in a lot of the bad news. Management at

Precision Drilling has stated that they believe that we are close to the bottom, as producers have engaged in significant cost cutting to the point where we may possibly see their budgets creeping back up towards the end of the year.

Crude has shown strength recently, so if this continues, or is even maintained at around these levels, it would clearly be a big positive. The fact that Precision's shares have increased 3.6% since its earnings release on April 27 is also a positive factor in my view, as it signifies that a lot of the bad news is reflected in the stock price.

While this sector is very fast moving and volatile, there is opportunity if we find our way through the volatility. Precision Drilling expects to grow market share in this downturn due to its strong balance sheet, long-term contracts, and its young high-performance fleet.

## **CATEGORY**

1. Energy Stocks
2. Investing

## **TICKERS GLOBAL**

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:PD (Precision Drilling Corporation)

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