Canada’s Oilfield Services Companies Are Facing Hard Times

Description

The oil price downturn has been particularly tough on Canada’s oilfield services companies, with sluggish industry activity prompting at least one firm to cast doubt on its ability to continue as a going concern. **Trican Well Service Ltd**. (TSX: TCW) suspended its dividend on Wednesday, cut 2,000 jobs, and said it’s seeking relaxed terms on debt agreements and is in negotiations to sell its Russian and Kazakhstan pressure-pumping business. Trican shares fell 14%, its biggest single-day decline since the financial crisis of 2008.

In a conference call, Chief Executive Dale Dusterhoft said he doesn’t expect any relief, at least in the short term. “Canadian industry activity is expected to be down substantially during the second quarter of 2015 compared to the same period in 2014. April and May activity will be down considerably with increases from June onward,” Dusterhoft said on a conference call. “This material uncertainty may cast significant doubt with respect to the ability of the corporation to continue as a going concern.”

Raymond James analyst Andrew Bradford said lenders are expected to provide debt relief to Trican and that as much as $200 million could be generated with the sale of the pressure-pumping business, though the company has provided no details on the unsolicited purchase offer.

Trican is expected to survive, but the services industry is facing a difficult summer, said Dan MacDonald, an analyst at RBC Dominion Securities. “The full impact of throttled back exploration and production spending was felt in April, with wells drilled and completions down 62% and 74% year on year, respectively,” he said.

Meanwhile, **Precision Drilling Corporation** (TSX:PD) is relying on cost-cutting measures to ride out the downturn. The country’s largest drilling contractor shed 2,200 jobs in the first quarter, leading to better-than-expected quarterly profits, despite a decline in drilling activities.

“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,” Chief Executive Kevin Neveu said in a statement.

Ensign Energy Services Inc.’s (TSX:ESI) first-quarter profit fell 74% and revenue fell 28%, due to weaker demand for its services. The Calgary-based driller cut executive and director pay and reduced capital spending in January.

“We are entering a cyclical downturn that will parallel 2009 and in some cases, will be worse than 2009,” Jon Morrison, analyst at CIBC World Markets, told the *Financial Post*. “First quarter was the start and Q2 will be much worse, while Q3 and Q4 will depend on commodity prices getting better.”

It’s clear that in the short term, oilfield services stocks should likely be avoided. In the long term, the companies may rebound, but like everything else in the energy sector, that will depend on the price of oil.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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