



Energy Companies Seeing Red as Oil Prices Weaken Further

Description

Just when it seemed oil prices were beginning to stabilize — albeit at lower-than-hoped-for rates — the benchmark for crude oil fell again this month, leaving a number of Canadian casualties in its wake.

Encana Corporation

As usual, the oil and gas sector was particularly hard hit with **Encana Corporation** (TSX:ECA) (NYSE:ECA) reporting a \$1.6 billion net loss in the second quarter (including impairment charges) and reducing its workforce by another 200 employees. The Calgary-based company has cut 1,400 workers in the past two years.

In a conference call, CEO Doug Suttles blamed lower oil prices for the job cuts, saying that weak prices are hurting the energy company's strategic, long-term plans. "We have to let the market rebalance," he said. "There's been quite a bit of speculation about when and how that will occur, but it's clearly trying to find its feet."

Encana's plans for the remainder of the year could include asset sales, though Suttles refused to release any details. "The longer you're in a lower price, the more likely the buyer and the seller can get closer to what they expect to receive and I think that's happening," he said.

Suttles said Encana has been hearing from potential buyers since February, when oil prices first began to drop. "We took that as a compliment because we think we have a quality set of assets."

Precision Drilling Corporation

Precision Drilling Corporation ([TSX:PD](#))([NYSE:PDS](#)) posted a second quarter loss of \$30 million and revenues dropped to \$334 million compared with \$475 million in the same quarter last year. "The first half of 2015 has been characterized by substantially reduced demand for our services as our customers grapple with depressed commodity prices and sharply reduced drilling budgets," said Precision Drilling president and CEO Kevin Neveu in a release.

In a conference call, Neveu said he does not believe in a v-shaped recovery, noting the company is

preparing for a lengthy period of weaker oil prices. “We’ve battened down the hatches for the long haul.”

Neveu said the company has reduced its total headcount by 2,200 people since the beginning of 2015.

FirstEnergy Capital analyst Ian Gillies said the quarterly losses beat his expectations on an earnings-per-share basis. And he added that although Precision’s second quarter financial results were strong, “the longer-term outlook remains limited at best given the volatility in commodity prices.”

The crystal ball

Some market watchers believe now is the best time to get into oil and gas stocks, with prices reaching historical lows. But there are questions, such as will crude prices go even lower, and what’s considered “rock bottom” in these turbulent times?

The “don’t worry, be happy” crowd likes to remind us that oil prices are cyclical, and will bounce back. Remember former economist Jeff Rubin’s predictions of \$200 a barrel oil? Of course, that never happened, and it may never happen, as alternative energy sources slowly eclipse traditional oil and gas models.

Still, there’s no doubt oil and gas prices will ultimately rebound, and you’ll want to be there when that occurs. That may mean waiting it out for a while longer. It certainly doesn’t mean you need to monitor the business channels minute-by-minute, but when the turnaround does come, you should be prepared for quick action.

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