Drilling Services Firms Are Feeling the Pain of Weak Oil Prices

Description

It's no surprise to see energy producers struggling through an extended period of weak oil prices. Smaller companies that provide support services to the oil and gas industry, such as **Trican Well Service Ltd.** (TSX:TCW) and **Calfrac Well Services Ltd.** (TSX:CFW), are also suffering as oil prices remain stubbornly low, a situation that may continue well into 2016.

Trican shares plunged 27% last Friday after the company reached an agreement in principle with its bank lenders and senior note holders that will ease some of the conditions the company must meet. However, the deal reduces Trican's available credit by $165 million, and there are concerns the agreement may contain more conditions that will negatively impact the company.

In May, Trican cancelled its dividend program and cut 2,000 jobs from its workforce in North America, citing difficult conditions in the oil and gas sector.

The company has also cut back its international operations, selling its Russian pumping business for $197 million in August and suspending operations in Colombia, Saudi Arabia, and Australia.

On a positive note, Trican said on Friday that its third quarter has been substantially better than the first half of the year, crediting its severe cost-cutting measures.

Calfrac said on Friday that it is cutting its dividend by 75%, the second reduction this year, as the oilfield services company deals with low oil and natural gas prices.

Calfrac's next payout to shareholders will be about 1.5 cents per share, payable October 15, down from 6.25 cents per share paid on July 15. The dividend had been 12.5 cents per share from April 2014 to April 2015.

Calfrac also said on Thursday that its dividend reinvestment plan will be suspended and all shareholders of record will receive dividends in cash on Oct. 15.

On a run-rate basis, the reduction will save Calfrac $18 million a year in annual cash outlay and will put the company's annual dividend liability at about $6 million, according to Jon Morrison, an analyst at

CIBC World Markets. Other analysts say Calfrac may be positioning itself for another difficult year in 2016.

Looking ahead, Industrial Alliance analyst Elias Foscolos has reduced his 2016 forecast for North American drilling activity, listing a number of reasons for the negative prediction, including rig count data from Baker Hughes and the Canadian Association of Oilwell Drilling Contractors, which both project no rebound in drilling next year.

"While we remain optimistic with respect to a rebound in the price of oil and gas due to steep projected declines in non-OPEC production (particularly in the U.S.), we are less optimistic about the prospects for a rebound in rig counts as we believe deleveraging balance sheets will take priority over drilling," Foscolos said in a note to clients.

While the drilling services industry has been the last area hit by the downturn, it also may be the last to rebound, suggesting stocks in this sector should be avoided in the near term.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

TICKERS GLOBAL

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2. TSX:TCW (Trican Well Service Ltd.)

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