Inside Precision Drilling Corporation's Awful Quarter

Description

The third quarter was unkind to **Precision Drilling Corporation** (TSX:PD)(NYSE:PDS), sinking nearly 20% since it reported late last week. Fueling this plunge is the fact that company missed expectations pretty badly due to the continued weakness of the North American drilling market. These poor operating conditions are expected to persist for some time, and the company is not expecting activity levels to improve until oil prices rebound.

Precision Drilling's results: The raw numbers

	Q3 2015 Actual	Q3 2014 Actual	Growth (YOY)
Revenue	$364.1 million	$584.6 million	-38%
Net Earnings	-$86.7 million	$52.8 million	-264%
Non-GAAP EPS	-$0.30	$0.18	-267%

Source: Precision Drilling Corporation.

What happened with Precision Drilling Corporation this quarter?

The weak oil market had a deep impact on Precision Drilling.

Revenue fell by 38% over the third quarter of last year. Driving this decrease was lower pricing and a drop in drilling-rig utilization days of 44% and 48% in Canada and the U.S., respectively, over the third quarter of last year.

This steep drop in revenue resulted in the company losing money during the quarter. However, it is worth noting that the company took after-tax impairment charges during the quarter totaling $74 million, or $0.25 per share, which further weighted on results.

In light of the continued downturn in the oil market, Precision Drilling is reducing its capital plan by $15 million for 2015, bringing it down to $531 million.

The company also announced that its 2016 capital plan will be reduced all the way to $180 million, 68% lower than 2015.

What management had to say

In commenting on the quarter, CEO Kevin Neveu said the following:

> In North America, the cautious optimism we expressed last quarter soon began to fade as commodity prices and activity levels resumed the decline through the summer and fall…We do not expect activity levels to increase in North America until a sustained commodity price strengthening materializes. If commodity prices remain depressed, we expect the normal industry winter ramp up in Canada to be muted.

Precision Drilling clearly is being cautious as we head into 2016, which is prudent given that some in the industry don't expect conditions to improve at all next year. Precision Drilling has dramatically decreased its capital spending as well as cut another $40 million from operating expenses; both of these steps should keep its balance sheet rather strong.

Nevue also said, "We have built our business to manage cyclicality and we expect to successfully weather this downturn and retain our ability to respond in a rebounding market."

So, while the quarter looked awful and 2016 isn't looking much better, the company shouldn't have any problems riding out the downturn.

Looking forward

Precision Drilling doesn't have a whole lot of visibility right now. It won't until oil prices rebound, and it's anyone's guess when that will happen. That's why the company is prudently reducing its costs, so that it can weather a protracted downturn and be in a position to thrive when industry conditions eventually rebound.

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1. Energy Stocks
2. Investing

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