The Energy Sector's Roller-Coaster Ride Continues

Description

The roller-coaster ride that is the energy market continues as lower-than-expected crude oil storage numbers left investors feeling less bearish on the commodity and its related equities.

Let's look at some of the biggest movers and the state of and outlook for these companies.

Precision Drilling Corporation (TSX:PD)(NYSE:PDS)

One could say that Precision Drilling, along with some other oil and gas stocks, is in a precarious situation as losses are mounting and balance sheets are being stretched. Rig counts are at 10-year lows both in Canada and the United States. And Precision Drilling is definitely feeling the sting. On a trailing 12-month basis, revenue is down 22% and EBITDA is down 25%.

On the flip side, the company has ramped up its fleet of Tier 1 rigs in recent years, which is helping it from a competitive standpoint. Tier 1 rigs are technologically advanced rigs that can drill a well in half the time it takes regular rigs, it can drill to greater depths, and it can bore longer horizontals.

Furthermore, the company has $439 million in cash and generated $54 million in free cash flow in the latest quarter. It has a net-debt-to-total-capital ratio of 37% and an interest-coverage ratio of 4.6 times. Importantly, the first principal payment on its debt is scheduled for 2019.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE)

Baytex is a high-quality oil producer with low-cost production and an experienced management team. And as a bonus, when the price environment is right, the company has a significant inventory of low-cost crude oil projects.

The company has a credit facility of $1.06 billion, of which only 25% is drawn, and it has a debt-to-total-capitalization ratio of 39%. Importantly, the debt-maturity schedule looks like this: $737 million comes due in 2020, $300 million comes due in 2021, and $536 million comes due in 2024.

Shawcor Ltd. (TSX:SCL.A)

Although Shawcor is being affected by the difficulty in the energy sector, it clearly has long-term fundamentals on its side. However, the fact is that the infrastructure is aging and investments need to be made in maintenance is something that cannot be denied. The timing of these investments is uncertain, but Shawcor is a global leader that has been posting healthy results.

In the nine months that ended on September 30, 2015, revenue declined a mere 3% and cash flow from operations increased 58%. And to top it off, the balance sheet is very healthy with a net-debt-to-EBITDA ratio of less than 1.2 times and a net-debt-to-capitalization ratio of 21%.

In conclusion

Taking a step back, and on a more positive note, low rig counts mean there is less drilling, less drilling means lower supply, and lower supply mean prices should start rising depending on the supply/demand balance. As an investor, it is key to accurately identify companies that will survive these difficult times, because when things get better these stocks will provide handsome returns.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:BTE (Baytex Energy Corp.)
3. TSX:PD (Precision Drilling Corporation)

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