1 Huge Sign the Oil Market Is Turning Around

Description

After two brutal years, the oil market is starting to show some signs of renewed life. That is evident by the actions of oilfield service company **Precision Drilling Corp.** (TSX:PD)(NYSE:PDS), which announced a series of steps last week to take advantage of the upswing in oil prices. Those actions are not only a vital sign that industry conditions are clearly improving, but that Precision's financial results are due for a big rebound.

Ramping up activity

On Precision Drilling's third-quarter conference call, CEO Kevin Neveu said that the energy sector is in "the early stages of a rebound." Because of that, the company took steps to reactivate 53 rigs that it had previously idled now that its customers are starting to put rigs back to work. That increase in activity was evident during the quarter: the company noted that it had 35 rigs drilling in the U.S., which is 70% more than it had working in the prior quarter.

In addition, the company hired 1,000 workers, most of which it had laid off during the downturn. This addition to the workforce alone is a huge step forward for an industry that has shed a myriad of jobs over the past two years.

Raising prices

In addition to putting rigs and people back to work, Precision also said that it would raise prices on its largest rigs, which it calls "super triples." That is because demand for these rigs is high since shale companies need to drill faster and longer wells to boost drilling returns.

In doing so, Precision joined an elite group of oilfield service providers that are pushing through service price increases now that activities are starting to improve. For example, oilfield service giant **Halliburton Company** (NYSE: HAL) said that it plans to raise prices to boost its profitability.

In fact, Halliburton’s management team went so far as to say that they were willing to forgo some of the company’s market share gains to boost profitability by raising prices. The company’s aim is to push hard on prices to get its margins back up to their historical 20% levels.

The formula for success

The volume increase alone from rising oilfield-service activity levels would be enough to boost the financial results of Precision and Halliburton in the early stages of the downturn. That is because those activity increases will enable them to earn incremental revenue as they put idled equipment back to work. That said, by adding price increases to the mix, these companies can capture exponential profit growth in the early stages of the rebound because the formula for robust profit growth is expanding volumes plus rising prices.

Investor takeaway

Precision Drilling is in a great spot right now. It got through the downturn unscathed and is now poised to capture the upside of the emerging rebound. In fact, its ability to push through prices increases early on could fuel strong earnings growth over the next year if the energy market rebound takes hold.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:HAL (Halliburton Company)
2. NYSE:PDS (Precision Drilling Corporation)
3. TSX:PD (Precision Drilling Corporation)

Category

1. Energy Stocks
2. Investing

Date
2025/07/03
Date Created
2016/10/25
Author
mdilallo