Oil-Services Companies Like Mullen Group Ltd. See Improving Fundamentals

Description

In the beginning of 2016, **Mullen Group Ltd.'s** (TSX:MTL) management had stated that they viewed 2016 as a year of positioning, as short-term fundamentals remained very weak. After the first quarter of 2016, management had expected at least two more quarters of pain, but they noted that demand for energy was continuing to grow, and the fact that supply had been contracting meant that things were moving in the right direction.

The dividend was cut, capex was cut, and the company even announced a share offering which was surprisingly well received by the market, so much so that the company increased the offering. In the third quarter of 2016 management became increasingly positive as they pointed to improving industry trends and an environment that was ripe for consolidation with valuations having come down to very attractive levels.

Let's fast forward to today. The stock has risen nicely off its lows of under $14 and has a one-year return of 31%.

Diversified revenue base

In the oilfield services segment, where revenue declined 29% to $86.8 million in the third quarter of 2016 and 32% for the first nine months of the year to $266.1 million, things are clearly still a mess.

But thankfully, the company also has its trucking and logistics segment, which now accounts for almost 67% of revenue, which is a far more stable business. Although trucking revenue in the third quarter was an unimpressive $17.3 million for a 5% decline versus the same quarter the previous year, this diversification has been really beneficial to Mullen.

Impressive margin performance indicative of top-quality management

Importantly, the oilfield services segment's EBITDA margin was quite resilient in the third quarter of 2016, which is especially impressive when we consider the significant decline in revenue. The segment's EBITDA margin increased 155 basis points, or 7% versus the same quarter of 2015. This is due largely to the many quality and process improvements that the company has initiated to preserve margins in the face of the downturn. The overall EBITDA margin for the quarter was down slightly due to a weakening in margins in the trucking segment.

Strong balance sheet

The company's balance sheet continues to be in good shape, and this gives Mullen flexibility and options, both of which are key. The cash and cash equivalents balance as of the end of September 2016 was $261.3 million with a debt-to-total-capitalization ratio of just over 41%.

In closing, the future right now still lacks visibility, but there are clear signs of improving demand. Add to the fact that Mullen has cut costs, increased margins, and is in the much-coveted position of being well positioned to make attractive acquisitions, this leaves me to conclude that this high-quality company is one that investors would do well by adding it to their portfolios.

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