



Has Activity in the Energy Sector Bottomed?

Description

As Canadian investors, it is crucial that we keep a close eye on the all-important energy sector. With all of its ups and downs, it truly is a sector that has been very good to investors in the good times. And with signs that we have hit a bottom in drilling in Canada and oil prices at over \$50 per barrel, this is a good time to sharpen our pencils.

Trican Well Service Ltd. ([TSX:TCW](#)) reported fourth-quarter and 2016 results that were very encouraging. Revenue decreased 27% year over year, and while this is clearly not a good result, it compares favourably with the 50% revenue decline that the company experienced for full year of 2016.

So while revenue declined, that trend is slowing, and the declines are becoming less severe, signaling that the bottom may have been hit.

Furthermore, the company has continued to work on improving its balance sheet and reducing its cost structure, so it will be in good shape to fully take advantage of a strengthening environment. In January 2017, the company sold its shares in National Oilwell Varco, monetized a portion of its investments in Keane, and used the \$50 million proceeds to further pay down debt. On the cost-structure side, fixed costs were reduced by \$140 million per year since the downturn and now represent 25% of costs versus 50% before the downturn.

More good news lies in the fact that Trican is seeing a pick-up in demand and activity levels, and pricing is rising nicely. The company saw a 10% increase in jobs performed in the quarter, and pricing marginally increased. Management expects pricing to increase by approximately 10% in the first quarter of 2017. So far in 2017, activity has significantly picked up, and management is bullish with regard to the first quarter.

So this is further confirmation that points to a bottom in activity and optimism coming back to the oil patch, at least the oil-services names.

Remember, oil-services names are a volatile way to invest in the energy space, so timing is very important. While these stocks have been on a tear lately, with Trican's shares up almost 200% in the last year and **Mullen Group Ltd.** ([TSX:MTL](#)) shares up 20%, there is a lot of room to go if this recovery

continues to ramp up. In the last cycle, returns in this space from bottom to peak got as high as +400% for some companies.

These stocks have a place in investors' portfolios as they have seen great increases in good times, but we should always be careful because the reverse is true in bad times. Right now though, with the early signs of increases in drilling activity and pricing, it looks like the good times may be upon us.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MTL (Mullen Group Ltd.)
2. TSX:TCW (Trican Well Service Ltd.)

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