



## Is Major Drilling Group Int'l Inc. the Next Commodity Stock to Surge?

### Description

**Major Drilling Group Int'l Inc. ([TSX:MDI](#))** is a leader in specialized drilling, and as such, it has a good competitive advantage in that it can overcome difficult and remote environments and successfully complete difficult drilling jobs, such as deep-hole drilling, high altitude drilling, and directional drilling.

What I see here is a company that is setting up to have a very successful next few years due not only to company-specific strengths, but also to an industry that is starting to look more like the bottom has been reached.

Major Drilling reported its fourth-quarter fiscal 2017 results recently. While the company reported a net loss of \$0.10 per share, there are clear signs of improvement and reasons for hope.

First of all, the net loss was significantly lower than last year's net loss of \$0.16 per share and comes off of a 27% increase in revenue, as the company saw improved utilization and an improvement in pricing in some areas.

While this has been one of the industry's longest downturns in history, as activity was still very low over the last 12 months, the increase in revenue and gross margins this quarter is promising. Also, the company has taken the initiative to invest in the overhaul of rigs and the training of crew to prepare for what will likely be a very strong few years.

In the fourth quarter, revenue from gold companies represented 60% of total revenue; global exploration improved as most senior miners have increased their exploration budgets. Most seniors and intermediates have seen mineral reserves deplete over last few years and have recognized that they need to address this as a supply shortage is looming.

Mineral reserves of the top 10 senior gold companies have decreased by 15% over last two years. But of key importance is the fact that gold companies have increased their exploration budgets by 30% for 2017, so we can expect to see this translate into higher revenue for Major Drilling.

On the copper side of things, which represented 23% of total revenue, the company has not seen any growth as of yet, as base metals companies' budgets have remained flat for 2017. But management

expects that copper will be the next to experience an uptick in exploration spending, as research shows that copper (typically 20% of rev base) could go in supply deficit as soon as 2018.

So, with a very healthy balance sheet, a net cash balance of \$18.1 million, and an environment where supply/demand will work in Major Drilling's favour, it is very easy to be bullish on the company. And while the stock price has already begun to reflect these changing fundamentals, with a one-year return of 27%, the leverage to increasing activity is very high, so the stock has plenty of room to go higher.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

## Category

1. Investing
2. Metals and Mining Stocks

## Date

2025/08/01

## Date Created

2017/06/13

## Author

karenjennifer

default watermark

default watermark