Calfrac Well Services Ltd. Sees Revenue Double in Q2

Description

Calfrac Well Services Ltd. (TSX:CFW) released its Q2 earnings on Wednesday. Revenues more than doubled from a year ago and increased for the fourth consecutive quarter. The reason for the increase in sales was primarily due to both higher prices and more fracturing activity. In Canada, revenues were up 145% year over year, and the number of fracturing jobs tripled. In the U.S., revenue was up over 220%, and fracturing activity almost doubled what it was a year ago.

However, despite posting more than $325 million in revenue, the company still saw a loss of $20 million for the quarter. Calfrac has now been in the red in each of its last eight quarters. The company will have to string some positive quarters together if it wants to avoid another lacklustre year.

In 2016, the company saw revenues of just $735 million, significantly down from 2014 when Calfrac had $2.5 billion in sales. With already $594 million in revenue year to date, the company looks to easily surpass last year's revenue, but whether or not it will be able to turn a profit will be another question. Net losses in 2016 totaled $198 million and were $222 million in the prior year; these losses eclipse the profits for the preceding three years which combined for only $192 million.

Revenue and profitability problems usually bleed through to the balance sheet, which is what is happening with Calfrac. In just four years, the company's long-term debt has more than doubled, rising from $441 million in 2012 to $984 million in 2016. Calfrac's debt-to-equity ratio increased from 0.56 to 1.94, putting itself into a highly leveraged position.

The company's cash flow from operations has also struggled; 2016 had over $200 million less cash from operations than the year prior. Even despite an improved Q2, the company's cash from operations has still been down year over year in large part due to changes in working capital.

The stock price is down over 25% year to date, but since hitting a 52-week low a month ago, the stock has shot up over 50%. And as a result of the strong quarter, the stock price increased by almost 6% on Wednesday. Despite the increase in price, the shares are now trading at about book value and could present a good bargain if the company is able to see long-term profitability.

Bottom line

Given the uncertainty in oil prices and the impact its decline has had on Calfrac, I would not bet on the situation improving for this company, even despite an improved quarter. Calfrac has not taken any hedging positions and has not been able to secure any profitability like others in the industry, including **Encana Corp.** and **Cenovus Energy Inc**. Although hedging may be getting away from the company's operations and may result in fluctuating results, in the oil and gas industry, it has almost become a way of life.

Calfrac needs oil prices to go up to see a sustainable recovery and I just don't see it happening, certainly not to the levels that were in 2014. That is enough of a reason for me to stay away from this stock, as I don't think a big recovery is in the cards for Calfrac. If oil prices see a further decline, then Calfrac might end up just being the latest casualty in the industry.

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