



What's Next for Precision Drilling (TSX:PD) Stock After its Q1 Loss?

Description

Energy producers have been on a roll since last year, thanks to rallying oil and gas prices. Notably, the spillover is seen in the allied areas, with drilling services companies also in a sweet spot.

One of Canada's biggest drillers, **Precision Drilling** ([TSX:PD](#))([NYSE:PDS](#)) is one of those companies. PD stock is up almost 85% this year and 175% since last year. It reported its Q1 2022 earnings on April 28, and it shows that momentum could well continue going forward at least through 2022.

PD stock has soared almost 300% since November 2020

The company [reported](#) total revenues of \$351 million for the quarter, representing a growth of nearly 49% year over year. The loss widened to \$43.8 million during the quarter, mainly due to higher share-based compensation expenses.

Precision Drilling is a \$1.2 billion oilfield services company that provides an extensive fleet of contract drilling rigs, well service, camps, and rental equipment. A massive recovery in energy commodities since mid-2020 changed Precision Drilling's fortunes. During those days, PD stock was trading below \$1. It did a 20-to-1 reverse stock split in November 2020. After almost 18 months to it, PD stock is currently trading close to \$90 apiece.

For the year 2021, Precision Drilling achieved an average market share of 9% in the U.S. and 33% in Canada. It has a presence in every major unconventional oil and gas basin in the U.S. and operates a fleet of 104 drilling rigs.

Strong growth outlook

Although the company reported a wider loss than last year, its upbeat management commentary could uplift the investor sentiment. [Higher energy prices](#) should bode well for the oilfield services industry. The sanctions on Russian oil exports and under-investment to produce more oil and gas for years will likely continue to drive energy prices higher. As a result, Precision Drilling expects higher demand for

its services with improved fleet utilization levels.

On average, the company has 39 drilling rigs under long-term contracts as of April 29, 2022. The number was 36 at this time last year.

Precision Drilling plans to invest more this year to cater to the increased demand. It announced an increased capital spending plan of \$125 million for 2022 — an increase from \$98 million from its earlier estimate.

Many North American energy producers have also upped their capital-spending plans this year to increase their production. This means more business opportunities for drillers like Precision and [improved financials](#).

The company has been repaying debt aggressively but still has \$1.17 billion in long-term debt. It targets a net debt-to-EBITDA ratio of 1.5 in the next few years. Notably, the ratio currently stands close to eight.

Bottom line

Energy prices will continue to dominate drilling companies. If oil and gas prices keep trading strong, which seems the high probability case right now, drillers like PD should see significant growth. Its superior cash flow growth could improve its balance sheet strength and boost shareholder returns.

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