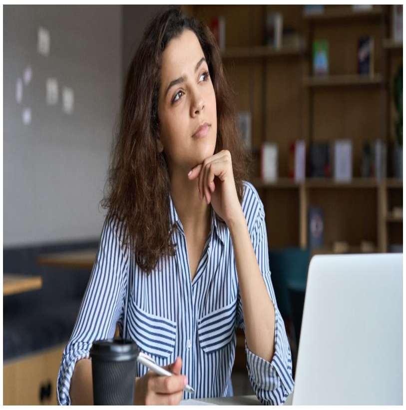

Precision Drilling (TSX:PD) Stock Falls 25% From the Top: What Should You Do?

Description

The global energy sector has been the only sweet spot among the tumultuous broader markets this year. This massive oil bull run has created an immense shareholder value since the pandemic. However, last week brought in some unpleasant indications for energy investors.

As recession worries hit the market, oil and gas stocks witnessed some of the biggest declines. A recession would dent the energy demand, which has been the primary driver of the oil price rally lately in tightly supplied markets.

PD stock has doubled this year!

Apart from oil and gas production stocks, oilfield services stocks have also been on a surge. One TSX oilfield stock, **Precision Drilling** (TSX:PD)(NYSE:PDS), has gained a massive 150% in the last 12 months before the weakness started brewing this month. So far in June, PD stock has fallen 25% from its record highs — an outsized impact compared to broader energy names.

Precision provides an extensive fleet of contract drilling rigs, well service, camps, and rental equipment. However, a massive recovery in energy commodity prices changed Precision Drilling's fortunes. Driven by higher energy prices, producers increased their output and, thus, drilled more wells. This, in turn, drove Precision Drilling's business prospects.

In fact, it increased its capital expenditure plan to $125 million for this year to cater to the higher demand. This was an increase from $98 million from its previous estimate.

Last year, the company achieved an average market share of 9% in the U.S. and 33% in Canada. In addition, Precision has a presence in every major unconventional oil and gas basin in the United States. In total, it operates a fleet of 104 drilling rigs. Its high-performance fleet, operating scale, and relatively lower growth capital requirements should drive demand and earnings growth.

Financial growth

Note that Precision Drilling is a loss-making company at the moment. For the latest quarter that ended on March 31, it reported a net loss of $44 million compared to $36 million in Q2 2021.

Apart from the topline growth, Precision Drilling stock has rallied like crazy due to its improving leverage. The company has been aggressively repaying its debt, bringing its balance sheet in a much stronger shape. More such strong quarters will likely further bring down its net debt.

Interestingly, Precision Drilling forecasts enough cash flows to drive shareholder dividends, even after repaying debt. So, investors can expect to receive dividends once it reaches a predetermined leverage target.

Bottom line

Precision Drilling will likely see higher demand for its services, as oil prices trade strong. Even though it offers handsome growth prospects, its high correlation with oil prices poses risks to investors. If oil and gas prices slide, which still looks like a remote possibility, PD stock will likely see an oversized blow. So, those who can stomach its large swings can consider entering at these levels. For conservative investors, there are plenty of less-volatile options to play the energy rally.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:PD (Precision Drilling Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe

2. vinitkularni20

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/07/17
Date Created
2022/06/20
Author
vinitkularni20