

CanElson Announces First Quarter Results, Expands 2014 Capital Program to Include Additional Contracted Rig Build and Declares Quarterly Dividend

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CALGARY, ALBERTA -- (Marketwired - May 15, 2014) - [CanElson Drilling Inc.](#) (TSX:CDI) today announces the financial results for the first quarter compared to a year earlier, expands the 2014 capital program to include one additional tele-double rig build under contract, and declares a first quarter dividend of \$0.06 per share.

FIRST QUARTER 2014 SUMMARY (Compared with a year earlier)

- Services revenue of \$97.1 million, up 34% from \$72.3 million
- Adjusted EBITDA \$31.8 million, up 16% from \$27.5 million (excludes Adjusted EBITDA from our equity investment joint venture DCM of \$3.0 million (2013: \$0.2 million)
- Income attributable to shareholders of the Corporation \$15.1 million, up 13% from \$13.3 million
- EPS (diluted) \$0.16, compared to \$0.17 in Q1 2013
- Weighted average diluted shares outstanding 93.2 million, up 21% from 76.8 million
- Declared first quarter dividend of \$0.06 per share, same as the prior year

CanElson reported the strongest Canadian revenue in the company's history, including a utilization rate (spud to rig release days) in the first quarter of 2013 of 79%, 1.29 times above the average industry utilization level of 61%. This compares to a Q1 2013 utilization level of 73%, 1.24 times the industry average. Management is encouraged by customer indications post spring break up, with 97% of the Canadian drilling rig fleet currently committed and 43% under long-term contract at the time of this press release.

In the US, CanElson reported a 12% increase in first quarter operating days when compared with a year earlier. Utilization of 84% was consistent with the prior year of 86%. At the time of this press release, all US drilling rigs are currently committed and 41% are under a long-term contract. In Mexico, DCM continued to operate three drilling rigs (one subcontracted) under a performance based contract, and generated the strongest results in its history.

The Corporation was able to maintain strong first quarter utilization rates relative to the comparative periods and increase revenue and Adjusted EBITDA as a result of our increased drilling rig fleet. However, the year-over-year reduction in Adjusted EBITDA margin percentage was primarily the result of a) lower average base revenue rates in Canada, b) the increase in the strength of the US dollar compared to the Canadian dollar; c) inflation increases in direct expenses primarily related to labour costs, and (d) more daywork in Texas that typically produces lower margins than footage performance rates. Earnings per share decreased by 5% primarily due to an increase in the number of shares outstanding as a result of the equity financings in 2013.

"We view the first quarter as a continuation of our focus on operating efficiencies and the value proposition of our modern drilling fleet, resulting in continued strong financial performance." stated Randy Hawkings, President and CEO of CanElson. "We continue to deliver top tier returns while still preserving our balance sheet for future growth."

Fleet deployment (by rigs)

Canada Texas North Dakota Mexico Drilling (i) Mexico Service Total
At March 31, 2014 29 (net 27.5) 12 (net 10.5) 5 2 (net 1) 2 (net 1) 50 (net 45)
At December 31, 2013 29 (net 27.5) 12 (net 10.5) 5 2 (net 1) 2 (net 1) 50 (net 45)

Change % Unchanged Unchanged Unchanged Unchanged Unchanged Unchanged
(i) Excludes 1 (net:0.5) sub-contracted drilling rig in Mexico.

Gross fleet deployment (by %)

Canada Texas North Dakota Mexico Drilling Mexico Service Total

March 31, 2014 58% 24% 10% 4% 4% 100%

December 31, 2013 58% 24% 10% 4% 4% 100%

OUTLOOK

Drilling Services

For the first quarter of 2014, CanElson was able to maintain consolidated activity levels comparable to Q1 2013. Going forward, we believe that our strategy has uniquely positioned CanElson to sustain relatively strong profitability during the full drilling industry cycle. The strategic drivers for our relative industry strength are:

1. Strategically diversified operations in high activity regions within two balanced geographical segments, which provide diversity of earnings and less seasonality while maintaining focus and operational efficiency.
2. Standardized heavy duty, modern tele-double drilling rigs (average age of approximately 5 years and average vertical depth rating of greater than 4,000 metres) complemented by our new AC triple rigs.
3. A solutions oriented culture as evidenced by providing performance-based drilling contracts and innovative cost saving opportunities.
4. A history of developing mutually-beneficial partnerships and strong client relationships with First Nations organizations, oil and gas operators and leading regional energy service providers such as Grupo Diavaz in Mexico.
5. Prudent financial management to limit debt leverage, thereby enabling us to be opportunistic at any point in the economic cycle.
6. A commitment to industry leading safety performance relative to benchmarks from third party sources such as provincial and state workers' compensation boards and private insurance providers.

Efficiency and Opportunity

While we are seeing an improving commodity price environment, our customers remain challenged to control horizontal well costs. This challenge has created an opportunity in the market which is being driven by demonstrated efficiency in the drilling process and cost saving programs, leading to a modernization of the land drilling rig fleet. It is our experience that drilling contractors providing effective solutions rather than just a rig rental have the most profitable opportunities. Therefore, while we continue to offer our customers high quality rigs for conventional day work contracts, we are seeing incremental demand being driven from those operators looking for assistance in reducing drilling and related well costs. This reduction in drilling costs does not necessarily correspond to a lower revenue rate for the drilling contractor. It instead focuses on the contractor's ability to minimize non-productive time, to maximize performance while drilling, and to flexibly integrate related equipment, services and contract types into the drilling solution.

We currently have clear customer interest in new build drilling rigs. A large majority of these new rig contract opportunities are being driven by our historical performance combined with our ability to identify cost saving opportunities in the drilling process. Our primary challenge continues to be sourcing skilled personnel to crew our growing drilling rig fleet, while maintaining the quality and performance our customers are accustomed to. Our goal is to be an employer of choice, which includes a continued focus on safety, an employee stock program, and a platform for growth which will foster career advancement opportunities. As a result, we continue to invest in personnel and customer relationships that allow us to assist in the drilling optimization process.

Canada

During the first quarter of 2014, CanElson continued to expand its Canadian fleet with the addition of one telescoping double to north east British Columbia. Activity levels over the next several months will be primarily dictated by weather; however, we expect to see stable revenue rates throughout the seasonal

downturn in activity. Many customers have indicated increased spending levels over 2013, which should result in strong drilling activity levels for the balance of the year.

United States - Texas

CanElson has 24% of its rig fleet focused on oil directed drilling in the Permian Basin in Texas, half of which operate under performance based contracts. Our success in the area has largely been the result of our drilling and operating efficiencies, coupled with performance-based contract options that deliver reduced customer well costs. We believe that performance based contracts will generate stronger economics over the long term, but may result in some cash flow variability. Overall, we expect to achieve utilization levels in 2014 that will be consistent with 2013.

United States - North Dakota

Our customers in North Dakota continue to look for cost efficiencies as total well costs have been increasing due to cost inflations relating to well completions and related services. We expect that a similar number of wells will be drilled in 2014 compared to 2013, with fewer rigs being required due to more efficient drilling practices. We do not anticipate our utilization levels to be significantly impacted.

Mexico

We have demonstrated our ability to profitably do business in Mexico. We believe our performance in the region and our alignment with an experienced and strong local partner (Grupo Diavaz, with 40 years of experience serving PEMEX) provides an excellent opportunity for our joint venture DCM to expand its range of services, including potentially expanding its drilling rig fleet beyond the two recently refurbished drilling rigs. Both drilling rigs operate under performance based contracts. In Q2 2014 the joint venture will release the subcontracted rig, and mobilize one drilling and one service rig to the Miquetla block, resulting in reduced sequential performance while equipment is being mobilized, with results to improve from Q2 2014 levels thereafter.

Rig Assembly

Based on existing customer contracts and those being finalized, CanElson's 2014 investment and deployment of new build rigs is expected to be as follows:

- Rig #44 (tele-double): Delivered in January 2014 under a long-term contract.
- Rig #45 (tele-double): Delivered in April 2014 under a long-term contract.
- Rig #46 (tele-double): Expected to be delivered in Q3 2014 under a long-term contract.
- Rig #103 (AC triple): Expected to be delivered in Q3 2014 with contract pending.
- Rig #49 (AC tele-double): Expected to be delivered in Q4 2014 with contract pending.
- Rig #104 (AC triple): Expected to be delivered in Q1 2015 with contract pending.

CanGas Solutions Inc.

For 2014 we expect to continue investing in our fleet of truck-hauled CNG delivery trailers and compressors. For more information about our investment plan see the Capital Availability and Capital Program below.

Capital Availability and Capital Program

CanElson is well capitalized with approximately \$82 million of available capacity on existing credit facilities to fund a portion of the 2014 capital program and take advantage of strategic opportunities. Funds flow continues to be strong and fully supports our current quarterly dividend rate of \$0.06 per share as well as a majority of the expected 2014 capital investment program, with the remaining amount being funded through existing credit facilities.

2014 Capital Program (\$103.0 million):

(Tabular amounts are stated in millions of Canadian dollars)

Drilling Services
Capital Expenditures Spare
equipment

facility &
overhead Upgrades &
maintenance Expansion CanGas Total
Capital expenditures for the three months ended March 31, 2014 \$ - \$ 7.3 \$ 21.5 \$ 1.7 \$ 30.5
Anticipated cost to complete 2014 capital expenditures 6.2 18.6 47.1 0.6 72.5
Total expected 2014 capital expenditures \$ 6.2 \$ 25.9 \$ 68.6 \$ 2.3 \$ 103.0
Previously anticipated 2014 capital expenditures (i) \$ 5.6 \$ 24.2 \$ 63.4 \$ 2.3 \$ 95.5
Variance from previously anticipated 2014 capital expenditures \$ 0.6 \$ 1.7 \$ 5.2 \$ - \$ 7.5
(i) Refer to our MD&A dated February 27, 2014

Our modern standardized fleet allows us to minimize capital expenditures on maintenance and spare equipment. Expansion capital is for the completion of two new tele-doubles for our Canada and US operations, one new AC triple, one new AC tele-double, and one innovative and proprietary AC triple. Total expected capital expenditures for 2014 have increased by \$7.5 million to \$103.0 million, primarily due to the addition of rig #46, a contracted new build tele-double.

Primary Corporate Objectives

CanElson's primary objective is to maintain and strengthen its above industry average utilization by consistently providing operational excellence and drilling efficiencies to its customers. With this focus, our aim is to be well positioned to secure customer commitments and capitalize on new opportunities. Subject to securing suitable customer commitments, we intend to carry out the following activities to further enhance our competitive positioning:

- Provide customers with lower overall well costs.
- Continue to expand our standard tele-double fleet, including additional AC doubles.
- Expand further into the AC triple drilling rig market.
- Expand our service offering in Mexico.
- Continue to form innovative long-term business relationships.
- Continue growth through strategic acquisitions.

DIVIDEND

On May 14, 2014, the Board of Directors approved a quarterly dividend of \$0.06 per share to be paid on June 13, 2014 to shareholders of record at the close of business on June 6, 2014. The ex-dividend date is June 4, 2014.

FINANCIAL SUMMARY

(Tabular amounts are stated in thousands of Canadian dollars, except per share amounts and rig operating days)

For the three months ended March 31,
2014 2013 % change
Services revenue \$ 97,139 \$ 72,277 34 %
Adjusted EBITDA \$ 31,761 \$ 27,455 16 %
Share of profit of unconsolidated joint venture \$ 1,653 \$ 38 4,250 %
Net income attributed to shareholders \$ 15,102 \$ 13,335 13 %
Net income per share
Basic \$ 0.16 \$ 0.17 (6)%
Diluted \$ 0.16 \$ 0.17 (6)%
Cash dividends per share \$ 0.06 \$ 0.06 - %
Funds flow \$ 30,725 \$ 26,851 14 %
Gross Margin (services) \$ 38,483 \$ 32,397 19 %
Weighted average diluted shares outstanding 93,195 76,784 21 %

Revenue and Operating Expenses

For the three months ended March 31,

2014 2013 % Change
 Oilfield services segment
 Services revenue
 Canada \$ 60,500 \$ 43,225 40 %
 US 36,639 29,052 26 %
 97,139 72,277 34 %
 Other direct operating expenses 58,656 39,880 47 %
 Gross margin \$ 38,483 \$ 32,397 19 %
 Gross margin % 40% 45%
 Administration expenses 6,722 4,942 36 %
 Adjusted EBITDA 31,761 27,455 16 %
 Adjusted EBITDA % 32% 38% (16)%
 Operating days (spud to rig release) 3,330 2,669 25 %
 Revenue per operating day (Canada) 29.54 28.29 4 %
 Revenue per operating day (US) 28.58 25.46 12 %
 Other operating expenses per day 17.61 14.94 18 %

CANELSON DRILLING INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

March 31, December 31,
 (Stated in thousands of Canadian dollars) 2014 2013

ASSETS

Current assets:

Cash \$ 3,537 \$ 6,402
 Trade and other receivables 77,249 65,055
 Prepaid expenses and deposits 2,117 1,693
 Current income tax asset 2,083 6,020
 Total current assets 84,986 79,170
 Property and equipment 446,949 422,257
 Deferred tax assets 721 749
 Other intangible assets 1,844 1,872
 Investment in unconsolidated joint venture 9,020 7,062
 Goodwill 35,696 35,696
 Total assets \$ 579,216 \$ 546,806

LIABILITIES AND EQUITY

Current liabilities:

Trade payables and accrued liabilities \$ 33,591 \$ 26,720
 Deferred revenue 945 1,532
 Loans and borrowings 9,910 17,163
 Total current liabilities 44,446 45,415
 Deferred revenue 1,251 1,450
 Loans and borrowings 37,668 24,608
 Deferred tax liabilities 59,061 56,423
 Total liabilities 142,426 127,896

Equity:

Share capital 303,215 301,439
 Employee benefit reserve 4,560 4,406
 Foreign currency translation reserve 12,840 8,791
 Retained earnings 90,681 81,110
 Equity attributable to shareholders of the Corporation 411,296 395,746
 Equity attributable to non-controlling interest 25,494 23,164
 Total equity 436,790 418,910
 Total liabilities and equity \$ 579,216 \$ 546,806

CANELSON DRILLING INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31,
 (Stated in thousands of Canadian dollars - except per share data) 2014 2013
 Services revenue \$ 97,139 \$ 72,277
 Cost of sales:
 Other direct operating expenses 58,656 39,880

Depreciation and amortization 8,990 5,614
 Stock based compensation 198 143
 Total cost of sales 67,844 45,637
 Total gross profit 29,295 26,640
 Expenses:
 Administration expenses 6,722 4,942
 Stock based compensation 367 342
 Foreign exchange loss 928 304
 Total expenses 8,017 5,588
 Share of unconsolidated joint venture profits 1,653 38
 Income before interest and taxes 22,931 21,090
 Interest expense 196 517
 Income before income tax 22,735 20,573
 Current tax expense 4,313 2,887
 Deferred tax expense 1,796 2,773
 6,109 5,660
 Net income \$ 16,626 \$ 14,913
 Other comprehensive income
 Foreign currency translation differences for foreign operations 4,550 2,099
 Share of unconsolidated joint venture translation differences 305 191
 Total comprehensive income \$ 21,481 \$ 17,203
 Income attributable to:
 Shareholders of the Corporation \$ 15,102 \$ 13,335
 Non-controlling interest 1,524 1,578
 \$ 16,626 \$ 14,913
 Total comprehensive income attributable to:
 Shareholders of the Corporation \$ 19,151 \$ 15,120
 Non-controlling interest 2,330 2,083
 \$ 21,481 \$ 17,203
 Income per share:
 Basic \$ 0.16 \$ 0.17
 Diluted \$ 0.16 \$ 0.17

NON-GAAP MEASURES

This news release contains references to Adjusted EBITDA, funds flow and gross margin. These financial measures are not measures that have any standardized meaning prescribed by IFRSs and are therefore referred to as non-GAAP measures. The non-GAAP measures used by CanElson may not be comparable to similar measures used by other companies.

Adjusted EBITDA is defined as income (loss) before interest, taxes, business acquisition transaction costs, depreciation and amortization, stock based compensation expense, gains on disposal of property and equipment, foreign exchange and share of unconsolidated joint venture profits. Adjusted EBITDA includes 100% of revenue and expenses from controlled entities where the Corporation holds less than 100% of the outstanding shares. Management believes that, in addition to net and total comprehensive income (loss), Adjusted EBITDA is a useful supplemental measure as it provides an indication of the results generated by CanElson's principal business activities prior to consideration of how these activities are financed, how the results are taxed in various jurisdictions, or how the results are effected by the accounting standards associated with CanElson's stock based compensation plan.

For the three months ended March 31,
 2014 2013 % Change
 Income before interest and taxes \$ 22,931 \$ 21,090 9 %
 Share of unconsolidated joint venture profits (1,653) (38) nm
 Depreciation expense 8,990 5,614 60 %
 Business acquisition transaction costs - - nm
 Stock based compensation expense 565 485 16 %
 Foreign exchange (gain)/loss 928 304 205 %
 Adjusted EBITDA \$ 31,761 \$ 27,455 16 %

Funds flow from operations is defined as cash provided by operating activities before changes in non-cash working capital. Funds flow from operations is a measure that provides shareholders and potential investors with additional information regarding CanElson's liquidity and its ability to generate funds to finance its operations, fund investing activities and support dividend payments. Management utilizes this measurement to assess CanElson's ability to finance operating activities and capital expenditures.

For the three months ended March 31,
2014 2013 % Change
Operating cash flow \$ 16,744 \$ 28,295 (41) %
Income taxes paid 376 1,289 (71) %
Changes in working capital 13,605 (2,733) (598) %
Funds flow \$ 30,725 \$ 26,851 14 %

Gross margin is defined as "gross profit from services revenue before stock based compensation and depreciation". Gross margin is a measure that provides shareholders and potential investors additional information regarding CanElson's cash generating operating performance. Management utilizes this measurement to assess CanElson's operating performance.

For the three months ended March 31,
2014 2013 % Change
Gross profit \$ 29,295 \$ 26,640 10%
Depreciation expense 8,990 5,614 60%
Stock based compensation expense 198 143 38%
Gross margin \$ 38,483 \$ 32,397 19%

In addition to the non-GAAP measures listed above, we define a number of industry related terms which are used in the MD&A below:

We categorize our rig fleet as either single, double, or triple drilling rigs, which pertain to the number of connected drill pipes it can hold on the derrick, but is also typically a barometer for its depth capacity. We often refer to many of our rigs as tele-doubles, 'tele' is short for telescoping, which refers to the upper section of the derrick which is nested inside the lower section of the structure during rig moves and is erected at the drill site. Drilling rigs are also categorized as mechanical or AC electric, which refers to the method in which the rig is powered. These are standard industry terms.

CanElson presents its activity levels on a drilling day basis, and sources its utilization statistics from the Canadian Association of Oilwell Drilling Contractors ("CAODC"), which measures drilling rig utilization based on spud to rig release dates. Moving, rig up, and tear down time are excluded, however, revenue may be earned during that time.

Revenue per operating day is calculated as total segment revenue divided by the number of drilling days (spud to rig release) and is not indicative of our base drilling rig rates.

FORWARD LOOKING INFORMATION

This press release contains forward-looking information pertaining to: our belief that our strategy and key drivers have uniquely positioned us to sustain relatively strong profitability during the full drilling industry cycle; our belief that drilling contractors providing a drilling efficiency solution rather than a rig rental will have the most profitable opportunities; our expectation that in Canada revenue rates will remain flat through the second quarter of 2014; our expectation that we will benefit from new opportunities across our operating areas; our expectation that we will achieve utilization in 2014 similar to utilization levels of 2013 for our Texas rigs; our expectation that in North Dakota the same number of wells will be drilled in 2014 compared to 2013 with fewer rigs and our anticipation that our utilization levels will not be significantly impacted; our performance and partner relationships in Mexico provides an opportunity for DCM to expand in the region; the construction and deployment of additional rigs in 2014 and 2015; our 2014 capital program; our primary corporate objectives; expected commencement of drilling by DCM in the Miquetla Block. This forward-looking information involves material assumptions and known and unknown risks and uncertainties, certain of which are beyond CanElson's control. These risks and uncertainties could cause CanElson's actual results, performance or achievements to differ materially from the forward-looking information. CanElson's Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describe the other risks, the material assumptions and other factors that could influence actual results and which are incorporated herein by reference. Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits CanElson will derive therefrom. The forward-looking information is made as at the date of this press release and CanElson does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

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