

Total Energy Services Inc. Announces Q1 2019 Results

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CALGARY, May 09, 2019 - [Total Energy Services Inc.](#) ("Total Energy" or the "Company") (TSX:TOT) announces its consolidated financial results for the three months ended March 31, 2019.

Financial Highlights

(\$000's except per share data)

	Three Months Ended March 31		
	2019	2018	Change
Revenue	\$ 221,990	\$ 205,215	8 %
Operating Income	8,437	7,560	12 %
EBITDA ⁽¹⁾	29,415	27,655	6 %
Cashflow	28,453	21,149	35 %
Net Income	4,759	3,328	43 %
Attributable to shareholders	4,760	3,164	50 %
Per Share Data (Diluted)			
EBITDA ⁽¹⁾	\$ 0.64	\$ 0.60	7 %
Cashflow	0.62	0.46	35 %
Net Income attributable to shareholders	0.10	0.07	43 %
	March 31, 2019	December 31, 2018	Change
Financial Position			
Total Assets	\$ 1,101,027	\$ 1,078,124	2 %
Long-Term Debt and Lease liabilities (excluding current portion)	286,829	286,319	-
Working Capital ⁽²⁾	117,914	124,967	(6 %)
Net Debt ⁽³⁾	168,915	161,352	5 %
Shareholders' Equity	558,054	560,576	-
Common Shares (000's) ⁽⁴⁾			
Basic and Diluted	45,829	46,122	(1 %)

Notes 1 through 4 please refer to the Notes to the Financial Highlights set forth at the end of this release.

Total Energy's financial results for the three months ended March 31, 2019 reflect an approximate 30% year over year decline in drilling activity in Canada offset by continued strength in the Compression and Process Services ("CPS") segment and stable industry conditions in the United States and Australia. Included in 2019 first quarter cost of services was \$1.3 million of non-recurring equipment relocation expenses in the CDS and RTS segments as the Company continued to consolidate drilling operations in the United States and relocate underutilized equipment from Canada to the United States. EBITDA and net income were also negatively impacted by \$1.2 million of other expenses for the first quarter of 2019, which consisted of unrealized foreign exchange losses on the translation of foreign subsidiary intercompany balances. The adoption of IFRS 16 on January 1, 2019 had no impact on net income, with the resultant \$1.2 million reduction in lease related expenses being offset by \$1.2 million of increased depreciation and finance costs.

Total Energy's Contract Drilling Services segment ("CDS") achieved 19% utilization during the first quarter of 2019, recording 1,930 operating days (spud to rig release) with a fleet of 114

drilling rigs, compared to 2,924 operating days, or 28% utilization, during the first quarter of 2018 with a fleet of 116 drilling rigs. Revenue per operating day for the first quarter of 2019 was \$23,681, a 14% increase from the prior year comparable period. During the first quarter of 2019, the CDS segment had 1,110 operating days in Canada with a fleet of 85 rigs (15% utilization), 522 days in the United States with a fleet of 24 rigs (24% utilization) and 298 days in Australia with a fleet of 5 rigs (65% utilization). Negatively impacting results for the first quarter of 2019 was \$0.9 million of non-recurring rig relocation expenses as the CDS segment continued to consolidate United States operations in West Texas. Australian utilization during the first quarter of 2019 was positively impacted by an additional drilling rig operating as compared to 2018. A modest decline in contracted rates and reduced revenue from camps and other ancillary services contributed to a year over year decline in Australian revenue per operating day.

The Rental and Transportation Services segment (“RTS”) achieved a utilization rate on major rental equipment of 23% during the first quarter of 2019 compared to 27% utilization during the first quarter of 2018. Segment revenue per utilized rental piece in the first quarter of 2019 was consistent with the revenue per utilized piece in the first quarter of 2018. This segment exited first quarter of 2019 with approximately 10,660 pieces of major rental equipment (excluding access matting) and 91 heavy trucks as compared to 11,000 rental pieces and 112 heavy trucks at March 31, 2018. During first quarter of 2019 the RTS segment continued to relocate underutilized equipment from Canada to the United States at a cost of \$0.4 million.

Revenue in the Compression and Process Services segment (“CPS”) increased 42% to \$121.1 million for the three months ended March 31, 2019 compared to \$85.1 million for the same period in 2018. This increase was primarily due to higher international activity levels and increased manufacturing throughput following a 30% increase in Canadian fabrication capacity in the fourth quarter of 2018. This segment exited the first quarter of 2019 with a \$159.8 million backlog of fabrication sales orders as compared to \$207.0 million at March 31, 2018 and \$222.9 million at December 31, 2018. At March 31, 2019, there was 47,000 horsepower in the compression rental fleet, of which approximately 30,600 horsepower was on rent as compared to 18,500 horsepower on rent at March 31, 2018. The gas compression rental fleet operated at an average utilization rate of 68% during the first quarter of 2019 as compared to 53% during the first quarter of 2018.

Total Energy’s Well Servicing segment (“WS”) generated \$36.8 million of revenue during the first quarter of 2019 on 42,649 service hours, or \$863 per service hour, with a fleet of 83 service rigs that were located in Canada (57 rigs), the United States (14 rigs) and Australia (12 rigs). This compares to \$36.8 million of revenue during the first quarter of 2018 on 41,114 service hours, or \$895 per service hour. Service rig utilization for the three months ended March 31, 2019 was 41% in Canada, 31% in the United States and 69% in Australia.

During the first quarter of 2019 Total Energy repurchased 85,400 common shares at an average price (including commissions) of \$9.85 per share pursuant to its normal course issuer bid and declared a quarterly dividend of \$0.06 per share to shareholders of record on March 31, 2019. This dividend was paid on April 30, 2019. For Canadian income tax purposes, all dividends paid by Total Energy on its common shares are designated as “eligible dividends”; unless otherwise indicated.

Outlook

In response to a substantial increase in the discount to world oil prices received by Canadian oil producers, the Alberta government imposed mandatory oil production cuts that came into effect in January 2019. Many producers scaled back or cancelled winter drilling programs altogether in response to the production curtailment. Despite a significant recovery in realized Canadian oil prices thus far in 2019, political and regulatory barriers to the construction of energy infrastructure continue to weigh on industry sentiment in Canada and visibility for activity levels following spring breakup is limited. While activity levels in the United States have leveled out, this market continues to be the primary driver of the Company’s near-term growth, particularly in the CPS and RTS segments. With increased fabrication capacity coming on line in late 2018, the CPS segment has recently expanded its United States sales presence in order to continue to grow its share of that market. The RTS segment has seen strong demand in the United States for quality equipment and service and continues to grow its market share by displacing third party equipment with underutilized equipment relocated from Canada and targeted investment in new equipment. Market conditions in Australia remain stable.

Total Energy continues to generate significant free cash flow despite prolonged challenging industry

conditions in Canada. During the first quarter of 2019, the Company completed \$14.7 million, or 36%, of its previously announced \$40.5 million 2019 capital expenditure budget, reduced long term debt by \$10.9 million and returned \$3.6 million to shareholders by way of dividends and share repurchases. The Company's liquidity position remains strong, with \$117.9 million of working capital at March 31, 2019, including \$50.3 million of cash and marketable securities. \$217.0 million was drawn on Total Energy's \$295.0 million of revolving bank credit facilities at March 31, 2019 and the Company was in compliance with all debt covenants and able to fully draw on the remaining amounts available under its credit facilities. Total Energy's primary credit facility provides the Company with the option to increase such facility by \$75 million subject to certain terms and conditions including the agreement of the lenders to increase their commitments.

Conference Call

At 9:00 a.m. (Mountain Time) on May 10, 2019 Total Energy will conduct a conference call and webcast to discuss its first quarter financial results. Daniel Halyk, President & Chief Executive Officer, will host the conference call. A live webcast of the conference call will be accessible on Total Energy's website at www.totalenergy.ca by selecting "Webcasts". Persons wishing to participate in the conference call may do so by calling (800) 319-4610 or (416) 915-3239. Those who are unable to listen to the call live may listen to a recording of it on Total Energy's website. A recording of the conference call will also be available until June 10, 2019 by dialing (855) 669-9658 (passcode 3140).

Annual Meeting of Shareholders

Shareholders and other interested persons are invited to attend the annual and special meeting of Shareholders which will commence at 10:00 am (Calgary time) on Wednesday, May 15, 2019 at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

Selected Financial Information

Selected financial information relating to the three months ended March 31, 2019 and 2018 is attached to this news release. This information should be read in conjunction with the consolidated financial statements of Total Energy and the notes thereto as well as management's discussion and analysis to be issued in due course and reproduced in the Company's 2019 first quarter report.

Consolidated Statements of Financial Position (in thousands of Canadian dollars)

	March 31, 2019 (unaudited)	December 31, 2018 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,750	\$ 30,640
Accounts receivable	147,447	155,946
Inventory	95,719	84,743
Prepaid expenses and deposits	14,642	17,776
Income taxes receivable	6,613	7,299
Other assets	576	527
Current portion of finance lease asset	695	-
	315,442	296,931
Property, plant and equipment	773,177	768,613
Income taxes receivable	7,070	7,070
Finance lease asset	720	-
Deferred tax asset	565	1,457
Goodwill	4,053	4,053

	\$ 1,101,027	\$ 1,078,124
Liabilities & Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 139,957	\$ 126,608
Deferred revenue	44,198	37,316
Dividends payable	2,747	2,752
Current portion of lease liabilities	7,871	2,376
Current portion of long-term debt	2,755	2,912
	197,528	171,964
Long-term debt	272,169	282,863
Lease liabilities	14,660	3,456
Onerous lease liability	-	1,574
Deferred tax liability	58,616	57,691
Shareholders' equity:		
Share capital	288,352	288,902
Contributed surplus	6,752	6,384
Accumulated other comprehensive loss	(9,380)	(5,320)
Non-controlling interest	237	238
Retained earnings	272,093	270,372
	558,054	560,576
	\$ 1,101,027	\$ 1,078,124

Consolidated Statements of Comprehensive Income
(in thousands of Canadian dollars except per share amounts)

	Three months ended March 31	
	2019	2018
	(unaudited) (unaudited)	
Revenue	\$ 221,990	\$ 205,215
Cost of services	179,978	165,569
Selling, general and administration	12,762	13,637
Other expense (income)	1,161	(1,592)
Share-based compensation	368	441
Depreciation	19,284	19,600
Operating income	8,437	7,560
Gain on sale of property, plant and equipment	1,694	495
Finance costs	(3,245)	(3,856)
Net income before income taxes	6,886	4,199
Current income tax expense	700	835
Deferred income tax expense	1,427	36
Total income tax expense	2,127	871
Net income for the period	\$ 4,759	\$ 3,328
Net income (loss) attributable to:		
Shareholders of the Company	\$ 4,760	\$ 3,164
Non-controlling interest	(1)	164
Income per share		
Basic and diluted	\$ 0.10	\$ 0.07

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

	Three months ended March 31	
	2019	2018
Net income for the period	\$ 4,759	\$ 3,328
Foreign currency translation adjustment	(3,670)	3,555
Deferred tax effect	(390)	(392)
Total other comprehensive income (loss) for the period	(4,060)	3,163
Total comprehensive income	\$ 699	\$ 6,491
Total comprehensive income (loss) attributable to:		
Shareholders of the Company	\$ 700	\$ 6,327
Non-controlling interest	(1)	164

Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)
(unaudited)

	Three months ended March 31	
	2019	2018
	(unaudited)	(unaudited)
Cash provided by (used in):		
Operations:		
Net income for the period	\$ 4,759	\$ 3,328
Add (deduct) items not affecting cash:		
Depreciation	19,284	19,600
Share-based compensation	368	441
Gain on sale of property, plant and equipment	(1,694)	(495)
Finance costs	3,224	3,631
Unrealized loss (gain) on foreign currencies translation	399	(2,567)
Current income tax expense	700	835
Deferred income tax expense	1,427	36
Income taxes paid	(14)	(3,660)
Cashflow	28,453	21,149
Changes in non-cash working capital items:		
Accounts receivable	7,440	1,689
Inventory	(10,976)	(9,574)
Prepaid expenses and deposits	4,364	3,380
Accounts payable and accrued liabilities	12,727	5,650
Onerous leases	1,297	(903)
Deferred revenue	6,882	1,393
Cash provided by operating activities	50,187	22,784
Investing:		
Purchase of property, plant and equipment	(14,700)	(7,605)
Proceeds on sale of other assets	20	227
Proceeds on disposal of property, plant and equipment	2,670	1,239
Changes in non-cash working capital items	2,229	(1,441)
Cash used in investing activities	(9,781)	(7,580)
Financing:		
Repayment of long-term debt	(10,851)	(11,182)
Repayment of lease liabilities	(2,081)	(529)
Dividends to shareholders	(2,752)	(2,774)

Repurchase of common shares	(842)	-
Interest paid	(4,770)	(2,470)
Cash used in financing activities	(21,296)	(16,955)
Change in cash and cash equivalents	19,110	(1,751)
Cash and cash equivalents, beginning of period	30,640	21,154
Cash and cash equivalents, end of period	\$ 49,750	\$ 19,403

Segmented Information

The Company provides a variety of products and services in the oil and natural gas industry through five reporting segments, which operate substantially in three geographic segments. These reporting segments are Contract Drilling Services, which includes the contracting of drilling equipment and the provision of labour required to operate the equipment, Rentals and Transportation Services, which includes the rental and transportation of equipment used in drilling, completion and production operations, Compression and Process Services, which includes the fabrication, sale, rental and servicing of natural gas compression and oil and natural gas process equipment and Well Servicing, which includes the contracting of service rigs and the provision of labour required to operate the equipment. Corporate includes activities related to the Company's corporate and public issuer affairs.

As at and for the three months ended March 31, 2019 (unaudited, in thousands of Canadian dollars)

	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 45,704	\$ 18,407	\$ 121,075	\$ 36,804	\$ -	\$ 222,890
Cost of services	37,921	11,858	103,320	26,879	-	179,978
Selling, general and administration	2,199	3,660	3,648	1,760	1,495	12,762
Other expense	-	-	-	-	1,161	1,161
Share-based compensation	-	-	-	-	368	368
Depreciation	8,194	4,521	2,334	4,201	34	19,284
Operating income (loss)	(2,610)	(1,632)	11,773	3,964	(3,058)	8,457
Gain on sale of property, plant and equipment	74	129	1,404	-	87	1,694
Finance costs	(102)	(22)	(105)	(6)	(3,010)	(3,345)
Net income (loss) before income taxes	(2,638)	(1,525)	13,072	3,958	(5,981)	6,886
Goodwill	-	2,514	1,539	-	-	4,053
Total assets	423,227	255,728	255,808	137,447	28,817	1,091,027
Total liabilities	77,260	41,239	128,558	8,587	287,329	543,973
Capital expenditures	\$ 2,795	\$ 7,567	\$ 2,405	\$ 1,682	\$ 251	\$ 14,700

	Canada	United States	Australia	Other	Total
Revenue	\$ 95,455	\$ 74,548	\$ 51,939	\$ 48	\$ 221,990
Non-current assets ⁽²⁾	525,904	172,167	79,159	-	777,230

As at and for the three months ended March 31, 2018 (unaudited, in thousands of Canadian dollars)

	Contract Drilling Services	Rentals and Transportation Services	Compression and Process Services	Well Servicing	Corporate ⁽¹⁾	Total
Revenue	\$ 60,980	\$ 22,312	\$ 85,118	\$ 36,805	\$ -	\$ 205,215
Cost of services	49,931	14,084	74,662	26,892	-	165,569

Selling, general and administration	2,353	3,939	2,699	1,177	3,469	13,6
Other income	-	-	-	-	(1,592)	(1,5
Share-based compensation	-	-	-	-	441	441
Depreciation	8,189	4,567	1,776	5,050	18	19,6
Operating income (loss)	507	(278)	5,981	3,686	(2,336)	7,56
Gain on sale of property, plant and equipment	50	51	-	394	-	495
Finance costs	7	(31)	(9)	(41)	(3,782)	(3,8
Net income (loss) before income taxes	564	(258)	5,972	4,039	(6,118)	4,19
Goodwill	-	2,514	1,539	-	-	4,05
Total assets	462,672	245,077	197,264	145,308	15,178	1,06
Total liabilities	52,260	41,066	76,430	2,486	342,525	514
Capital expenditures	\$ 3,012	\$ 2,121	\$ 1,794	\$ 678	\$ -	\$ 7,60

	Canada	United States	Australia	Other	Total
Revenue	\$ 104,191	\$ 67,099	\$ 33,925	\$ -	\$ 205,215
Non-current assets ⁽²⁾	560,335	140,310	89,783	-	790,428

⁽¹⁾ Corporate includes the Company's corporate activities and obligations pursuant to long-term credit facilities.

⁽²⁾ Includes property, plant and equipment and goodwill.

[Total Energy Services Inc.](#) is a growth oriented energy services corporation involved in contract drilling services, rentals and transportation services, the fabrication, sale, rental and servicing of natural gas compression and oil and natural gas process equipment and well servicing. The common shares of Total Energy are listed and trade on the TSX under the symbol TOT.

For further information, please contact Daniel Halyk, President & Chief Executive Officer at (403) 216-3921 or Yuliya Gorbach, Vice-President Finance and Chief Financial Officer at (403) 216-3920 or by e-mail at: investorrelations@totalenergy.ca or visit our website at www.totalenergy.ca.

Notes to the Financial Highlights

1. EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to net income before income taxes plus finance costs plus depreciation. EBITDA is not a recognized measure under IFRS. Management believes that in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Company's primary business activities prior to consideration of how those activities are financed, amortized or how the results are taxed in various jurisdictions as well as the cash generated by the Company's primary business activities without consideration of the timing of the monetization of non-cash working capital items. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of Total Energy's performance. Total Energy's method of calculating EBITDA may differ from other organizations and, accordingly, EBITDA may not be comparable to measures used by other organizations.
2. Working capital equals current assets minus current liabilities.
3. Net Debt equals long-term debt plus lease liabilities plus current liabilities minus current assets.
4. Basic and diluted shares outstanding reflect the weighted average number of common shares outstanding for the periods. See note 6 to the Company's Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2019.

Certain statements contained in this press release, including statements which may contain words such as "could", "should", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts are forward-looking statements. Forward-looking statements are based upon the opinions and expectations of management of Total Energy as at the effective date of such statements and, in some cases, information supplied by third parties. Although Total Energy believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions and that information received

from third parties is reliable, it can give no assurance that those expectations will prove to have been correct.

In particular, this press release contains forward-looking statements concerning industry activity levels, including expectations regarding Total Energy's future activity levels, market share and compression and process production activity. Such forward-looking statements are based on a number of assumptions and factors including fluctuations in the market for oil and natural gas and related products and services, political and economic conditions, central bank interest rate policy, the demand for products and services provided by Total Energy, Total Energy's ability to attract and retain key personnel and other factors. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performances or achievements of Total Energy to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Reference should be made to Total Energy's most recently filed Annual Information Form and other public disclosures (available at www.sedar.com) for a discussion of such risks and uncertainties.

The TSX has neither approved nor disapproved of the information contained herein.

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