

Precision Drilling Equity Research Report

January

22th

2012



Energy Sector

Macic 2011/2012



Precision Drilling Equity

Research Report

Energy Sector
 Date: 01/10/2012
 Fund Manager: Andrew Carrothers
 Associate: Ryan Swiderski Associate: Konrad Murch
 Associate: Nicholas Chan
 Associate: Laura Semotiuk
 Associate: Thomas Oszustowicz

info@macic.ca Mac Investment Club www.macic.ca

Stock Rating:
Outperform

Sector Weighting:
N/A

Jan 18th, 2012: \$9.89
 Price Target: \$11.50
 Target Price Date: 03/31/2012

COMPANY MARKET STATISTICS

Ticker:	PD
Exchange:	TSE
Fiscal Year End	December
52-week range (High/Low)	\$17.20/\$7.98
Shares Outstanding	276.07M
Avg. Daily Trading Vol.	1.11M
Market Capitalization	\$2.73B
Annual Dividend	N/A
Dividend Yield	N/A
Price/Earnings	17.28
Price to Book	1.36
BETA	1.84
EV/EBOTDA	N/A

REVENUE BREAKDOWN

Contract Drilling Services: 84.82%
 Completion & Production Services: 15.94%
 Intersegment Eliminations: -0.76%

ANNUAL EARNINGS PER SHARE (EPS)

2011	\$0.79
2010	\$0.22
2009	\$0.57
2008	\$2.12

HIGHLIGHTS

- 2011 (9month) Net earnings of \$165 million or \$0.57 per share, significantly higher than in 2010 at \$44 million, or \$0.15 per share.
- Planned capital expenditures of \$1.14B for 2012.

OVERVIEW

Precision Drilling Corporation, through its subsidiaries, provides onshore well drilling services, completion and work over services, and ancillary services to the oil and gas industry in North America and internationally. The company operates in two segments, Contract Drilling Services, and Completion and Production Services. The Contract Drilling Services segment provides land drilling, directional drilling, turnkey drilling, and camp and catering services; and procures and distributes oilfield supplies. This segment also manufactures and refurbishes drilling and service rig equipment. As of December 31, 2010, it operated 202 land drilling rigs, 150 land drilling rigs, 2 land drilling rigs in Mexico, and 1 land drilling rig in Chile, as well as operated 80 drilling camps and 2 base camps in Canada. The Completion and Production Services segment offers service rigs for well completion and work over services, snubbing services, and wastewater treatment services, as well as involves in the rental of oilfield surface equipment, tubulars, well control equipment, well site accommodations, and drilling camps. As of December 31, 2010, this segment operated 200 well completion and work over service rigs and 20 snubbing units in Canada; 77 wastewater treatment units and 3 potable water production units in Canada; and 1 drilling camp and 11 well site accommodation units in the United States, as well as provided approximately 11,050 oilfield rental items in Canada and the United States. The company was formerly known as Precision Drilling Trust and changed its name to Precision Drilling Corporation in June 2010. Precision Drilling Corporation was founded in 1951 and is headquartered in Calgary, Canada.

Generously Sponsored By:



PRICE CHARTS

PRECISION DRILLING VS. TSX INDEX



Generously Sponsored By:



NEWS AND EVENTS

CALGARY, ALBERTA--(Marketwire - Dec. 6, 2011) –

Precision Drilling released a report stating that it has planned capital expenditures of \$1.14B for 2012. This includes \$738 million for expansion capital, \$232 million for sustaining infrastructure and \$173 million for upgrade and long-lead time item expenditures.

Of the \$738 million devoted for expansion capital, \$605 million will be used for the Contract Drilling segment while the remaining \$133 million will be used toward the Completions and Production Services segment. Precision Drilling announced that the Contract Drilling Capital would be used for the construction of seven additional drilling rigs and completion of twenty-seven drilling rigs previously announced.

CALGARY, ALBERTA--(Marketwire - Nov. 3, 2011)

Precision Drilling announced that it has appointed Niels Espeland – who has over thirty-five years of experience in the international oilfield service business – as President of International Operations.

CALGARY, ALBERTA--(Marketwire - Oct. 21, 2011)

For the quarter ending September 30th, 2011, Precision Drilling reported net earnings of \$83 million or \$0.29 per share compared to \$56 million or \$0.20 per share in the same quarter last year. Earnings per share this quarter were much higher than in Q2 where Precision Drilling had an EPS of 0.06 due to seasonality favourableness that runs from autumn to spring.

For the nine months ending September 30th, 2011, Precision Drilling reported net earnings of \$165 million or \$0.57 per share, which were significantly higher than in 2010 at \$44 million, or \$0.15 per share.

COMPANY RISK

With a beta of greater than one, Precision Drilling is significantly more volatile than the market as whole. However, other companies within the drilling industry face a similar beta so it is not out of the ordinary. Precision Drilling is one of the largest contract drilling services in Canada and therefore is less risky compared to other similar companies in this industry.

With a Moody's long term rating of ba1, it is considered to be a speculative grade and judged to have speculative elements and significant credit risk. In terms of short-term rating, it is considered not prime and therefore does not fall within any of the prime categories.

Generously Sponsored By:



HORIZONS
EXCHANGE TRADED FUNDS



Russell
Investments



Risks that drilling companies face include “fluctuations in the price and demand for oil and natural gas”, “fluctuations in the level of oil and natural gas exploration and development activities”, “fluctuations in the demand for contract drilling, well servicing and ancillary oilfield services”, and “the effects of seasonal and weather conditions on operations and facilities”.

BETA

1.84

Moody's Rating

ba1

PEER COMPARISON

Ticker	Market Cap	Price	Div. Yield	Trailing P/E	Forward P/E	Annual Revenue	1-Mo Return	3-Mo Return	1-Yr Return
PD.TO	C\$3.1B	C\$11.40		16.6	8.04	C\$1.4B	0.0224	0.195	0.1826
ESI.TO	C\$2.6B	C\$16.85	0.0245	13.1	9.12	C\$1.4B	0.0421	0.2255	0.1086
SVY.TO	C\$640.7M	C\$7.51		18.9	8.89	C\$438.4M	-0.0118	0.1028	0.1077
TOT.TO	C\$534.5M	C\$16.75	0.0093	8	7.48	C\$221.6M	-0.0216	0.3432	0.1964
TDG.TO	C\$883.5M	C\$7.25	0.0266	11.91	9.89	C\$646.7M	-0.1016	0.1545	0.1656

Precision Drilling is the stock in the Oil & Gas Drilling Industry with the largest market cap and annual revenue.

REVENUE AND EARNINGS
Revenue

	Q1	Q2	Q3	Q4	Total
2011	\$525,350	\$345,325	\$492,944	\$	\$
2010	\$373,136	\$261,828	\$359,152	\$435,537	\$1,429,653
2009	\$448,445	\$209,597	\$253,337	\$286,067	\$1,197,446
2008	\$342,689	\$138,514	\$285,639	\$335,049	\$1,101,891

Generously Sponsored By:


HORIZONS
 EXCHANGE TRADED FUNDS

Russell
 Investments

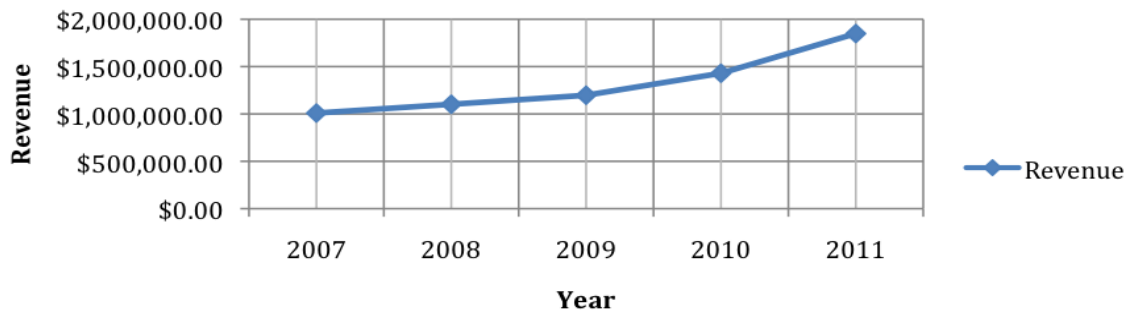

Net Income

	Q1	Q2	Q3	Q4	Annual Total
2011	\$65,560	\$16,403	\$83,468	\$	\$
2010	\$62,017	-\$66,547	\$61,078		\$62,091
2009	\$57,417	\$57,475	\$71,696	\$	\$161,703

EPS

	Q1	Q2	Q3	Q4	Total
2011	CAD \$ 0.24	CAD (\$0.06)	CAD \$ 0.30	CAD \$ --.-	CAD \$ --.-
2010	CAD \$ 0.23	CAD (\$0.24)	CAD \$ 0.22	CAD \$ --.-	CAD \$0.23
2009	CAD \$ 0.32	CAD \$0.23	CAD \$0.26	CAD \$ --.-	CAD \$ 0.65

Annual Revenue

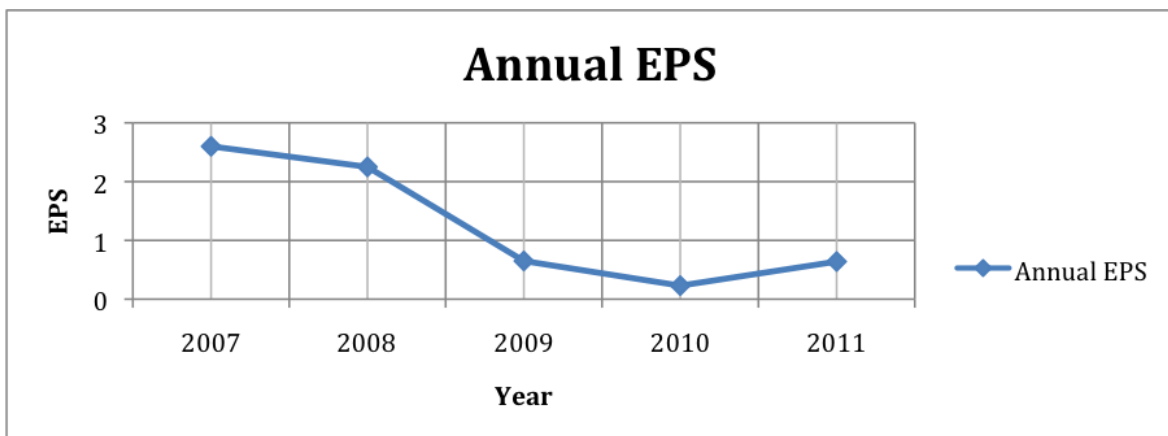
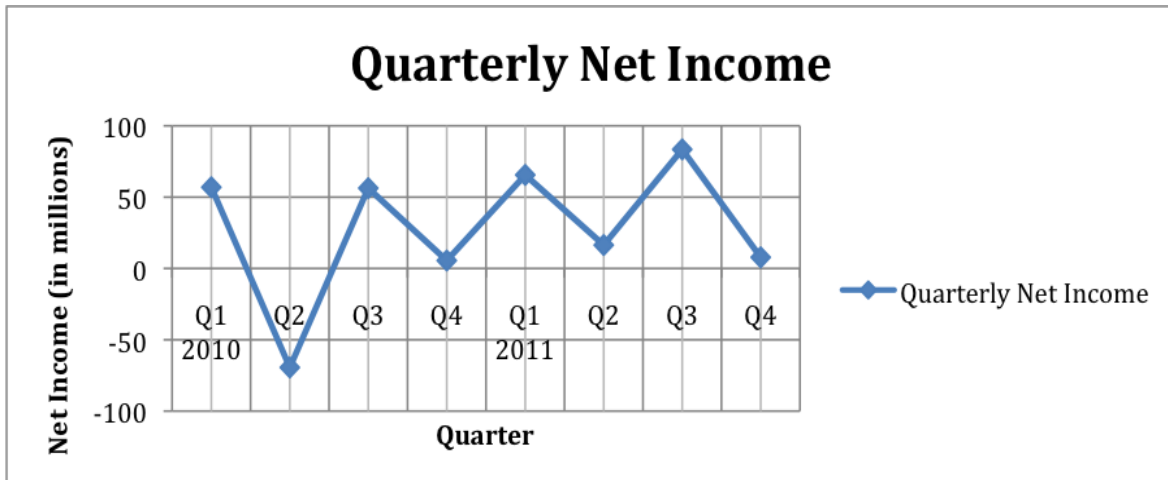
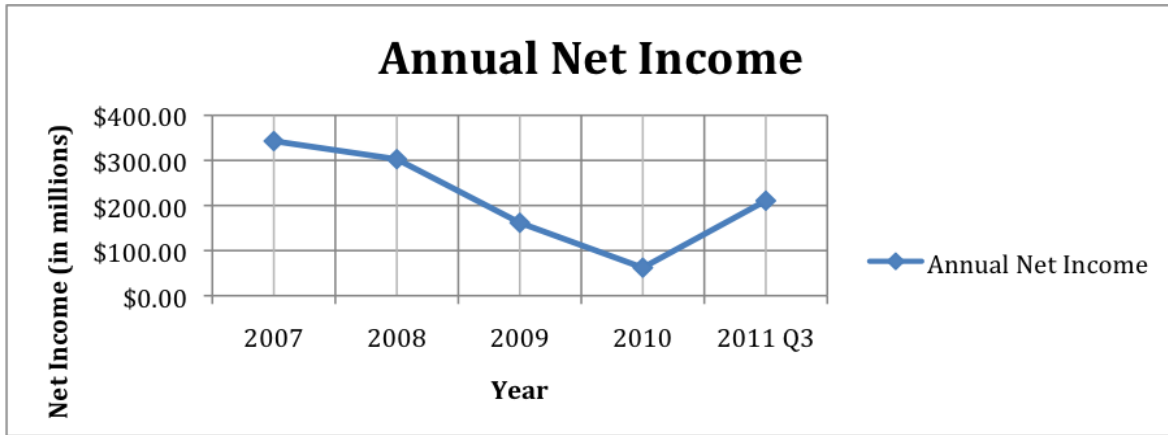


Quarterly Revenue



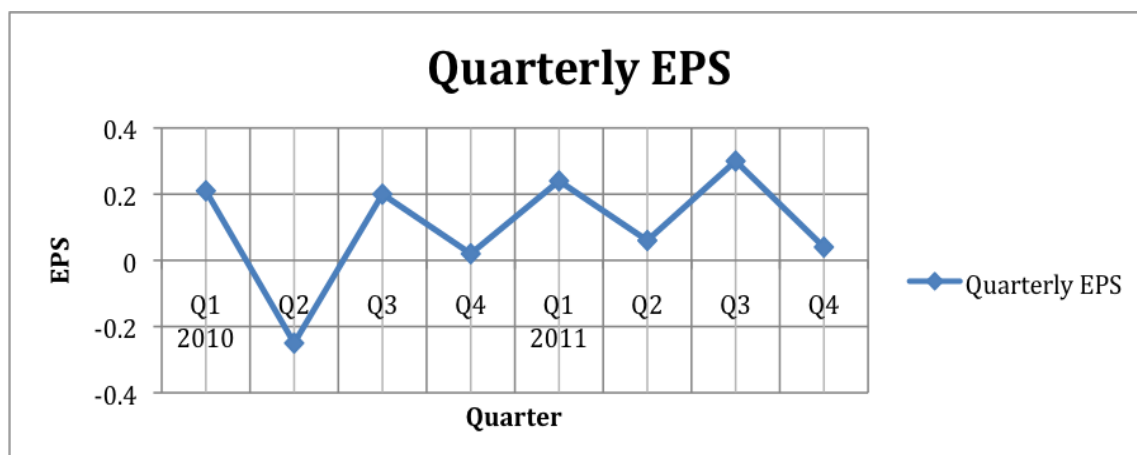
Generously Sponsored By:





Generously Sponsored By:





FUNDAMENTAL RATIO ANALYSIS

Precision drilling has very strong revenue growth while still maintaining a healthy profit margin indicating the possibility of an increase in future share prices. With relatively high return on equity and return on assets, they are demonstrating strong profitability. With a current ratio of just over three, Precision Drilling has more than enough cash to handle all current financial obligations. With a price to book ratio of greater than one, this is a good signal of future growth prospects. The price to earnings ratio is slightly under the industry average meaning this stock is no overpriced. Although Precision Drilling has a relatively high debt to equity ratio, this is typical in the drilling industry.

Revenue Growth

37.30%

ROE

7.79%

Current Ratio

3.1

Price to Bo

1.51

Gross Margin

--.-%

ROA

5.84%

Quick Ratio

--.-%

Profit Margin

10.21%

P/E

17.33

Debt/Equity

59.99

CASH FLOW ANALYSIS

Cash Flow Analysis was taken using data from the most recent quarter. Precision Drilling is sitting on a cash position of \$501 million. Free cash flow is negative meaning that the PD is spending more on capital expenditures than its net cash flow from operations. PD also does not currently pay a dividend.

Generously Sponsored By:


HORIZONS
 EXCHANGE TRADED FUNDS

Russell
 Investments


Net Cash Position	Dividend	Div. Growth Rate	Price/Cash Flow
\$501 million	N/A	N/A	9.67
FCF Per Share	Dividend Yield	OCF Ratio	
-\$ 0.61	N/A	0.907	
FCF Yield	Dividend Payout	OCF/Net Sales	
-5.54%	N/A	0.637	

Generously Sponsored By:



HORIZONS
EXCHANGE TRADED FUNDS



Russell
Investments



TECHNICAL ANALYSIS

Moving Average, MACD and RSI Analysis



Generously Sponsored By:



Since the beginning of August, Precision Drilling's stock has been in a downtrend. There have been lower highs as well as lower lows – the exception being the large dive in stock price that occurred between September and mid-October.

The price recently rose above the 15-day moving average, and is approaching the 50-day moving average, which has acted as support on three occasions and as resistance twice over the last year. If the price manages to close above the 50-day moving average, it is reasonable to assume that the stock will have a run up to the \$12 range where the 200-day moving average lies.

The Relative Strength Index is currently at 53.42, indicating that PD is neither overbought nor oversold. The MACD line has recently crossed over the signal line and is currently at -0.042. This indicates that we are likely to see a short-term bullish trend, which would be confirmed if the MACD moves into the positive range.

Bollinger Band Analysis



Bollinger Band analysis may indicate the formation of a “W-bottom.” This pattern has a few components to it. First a low has to be formed where the price closes below the lower band (observed in late November). Then, there is a run above the middle band (seen in early December), before the price tests the lower band again and holds above it. The last step requires breaking the current resistance, which is around \$12. If this last step occurs, the result is a bullish indicator.

Generously Sponsored By:



HORIZONS
EXCHANGE TRADED FUNDS



Russell
Investments



SELECTION METHODOLOGY

We came across Precision Drilling as we wanted to find stocks that represent all aspects of the energy sector. PD provides contract drilling for oil and gas exploration and production companies in Canada, the United States, and internationally. Companies in the oil and gas service sector get busy once it gets cold as they are able to get drilling equipment into place on frozen ground. The forecast of drilling activity for this season is high, which means that PD is likely to make a lot of money over the winter, which will likely result in an increase in the share price.

Precision Drilling has a market cap of \$3.2 billion, which meets our criteria of having a market cap of at least one billion. At the beginning of October, PD almost reached its 52-week low of \$8.32. This is down from a recent high of 16.38, which was hit at the end of July. The \$8.32 bottom may signal the beginning of a new rally. The stock represents good value if it can be bought below \$10 due to market volatility.

Furthermore, in the S&P Analyst report covering Precision Drilling, five out of six analysts currently rate PD as a “Buy/Hold” which helps validate our recommendation to buy PD.

Generously Sponsored By:

