

# The Globe and Mail

## Compelling numbers buoy investor confidence

By DAVE EBNER  
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With oil at around \$50 (U.S.) a barrel, some investors see nothing but good things for the drillers -- and figure that even if commodity prices take a big tumble, things will still be good for companies that poke holes in the ground to help find oil and natural gas.

"Even if oil goes to \$35, these companies will generate tremendous profits, in 2005 and 2006," said Daniel Bain, president of Thornmark Asset Management Inc. "We usually use a one-year outlook for the services. [Right now], it's easy to be comfortable looking out two years."

The numbers, Mr. Bain said, are too compelling not to take a stake. He noted that two of his holdings, Calgary's **Trican Well Service Ltd.** and **Savanna Energy Services Corp.**, are both expected to increase share profit by more than 50 per cent this year.

Investing in drillers in the past usually meant trying to profit as much as possible from a bull market while avoiding getting hurt too badly when things turned lower. Now, however, some executives in the drilling industry say this boom might not end in a horrible bust, meaning drilling companies might be more buy-and-hold investments than buy-and-opportunely-sell.

One sign of relative stability may be the trend among service companies to consider an income trust structure, which by nature favours steady results rather than the volatile performance produced by booms and busts. Yesterday, **Total Energy Services Ltd.** said it wants to fully convert to a trust, noting that among other things the Calgary-based company would likely be "valued more favourably" under such a structure.

The biggest conversion could be coming later this year. For months now, investors have speculated about the future of **Precision Drilling Corp.** Management said on a quarterly conference call this month that a trust is among the options being considered. Analysts say its domestic drilling business is the part of the company most likely to be converted.

Fred Sturm runs the largest natural resources fund in Canada, overseeing about \$600-million (Canadian) in the Mackenzie Universal Canadian Resource Fund for Mackenzie Financial Corp. He believes the world is in the middle of a dozen-year bull market for resources.

Looking at the number of rigs in Canada, Mr. Sturm sees some "capacity creep" in terms of new rigs "but that's all come in a moderate pace," he said. "We haven't seen a rapid and undisciplined increase in capital expenditures."

RBC Dominion Securities Inc. analyst Angela Guo sounded

something of a warning when she said she thought the sector's stocks were looking expensive. The group shot higher in January and, in a Feb. 1 report, Ms. Guo noted that the average price-earnings ratio on this year's predicted profits rose to 14.4 from 13.7. "Most of the valuations are rich at this time," she wrote. However, stocks in the sector have kept climbing since that note.

Tim Gleeson, a managing director at FairLane Asset Management Ltd., has been bullish on energy since late 1998. "I think it's starting to end," he said, "but I think it has a little while to go."



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