

Unit Corp. 2Q earnings decrease

By: [D. Ray Tuttle](#) The Journal Record August 5, 2014

TULSA – Hurt by a loss on derivatives, [Unit Corp.](#) reported an 8-percent drop in second-quarter profits on Tuesday despite higher revenues. Earnings also missed analysts' marks, while revenues topped the estimates.

For the three months that ended on June 30, the Tulsa-based oil and natural gas contract drilling company said profits declined to \$54.36 million, or \$1.11 per diluted share, from \$59.01 million, or \$1.22 per diluted share, the same period a year ago.

Total revenues surged 19 percent to \$405.43 million from \$340.42 million the same period a year ago. Revenues were 2 percent above the Wall Street forecast of \$398.93 million.

Unit revenues were up but so were operating expenses, offsetting some of the company's gains, said Qian Zhang, portfolio manager for the [Fredric E. Russell Investment Management Co.](#) of Tulsa. Operating expenses for the quarter rose 18 percent to \$301.8 million, compared to \$255.8 million the same period last year.

Normally, companies employ derivatives to cushion against big changes in the market, Zhang said.

"But it is risky," Zhang said, citing Unit's [10-K](#) that reported Unit losing \$8.3 million in derivatives in 2013 and another \$1.2 million loss in 2012.

Unit did report earning \$1.7 million in derivatives trading in 2011.

Excluding certain items, adjusted net income climbed 13 percent, totaling \$55.36 million, or \$1.13 per diluted share, compared with \$48.84 million, or \$1.01 per diluted share, the same period last year.

On average, eight analysts polled by Thomson-Reuters estimated the company's earnings to be \$1.15 for the quarter. Analysts' estimates typically exclude one-time items.

Production increased in all five of Unit's core areas during the quarter compared to the first quarter, said Unit CEO and President Larry Pinkston during a conference call with analysts.

Unit production increased about 10 percent in the Mid-Continent, which includes the Granite Wash, Marmaton, Mississippian and the Hoxbar formations. In the southeast Texas Wilcox formation production increased 17 percent, Pinkston said.

For the quarter, natural gas liquids production climbed 24 percent to 12,800 barrels per day from the same period a year ago. Crude oil equivalent production increased 12 percent to 4.6 million barrels of oil equivalent. Oil production increased 11 percent to 10,400 barrels per day. Natural gas production grew 8 percent to 165.1 million cubic feet per day.

The average number of drilling rigs used in the quarter was 73.5, a 13-percent rise from the same period last year. Per-day drilling rig rates averaged \$19,904, up 2 percent from the same period a year ago.

Unit shares closed down 2.88 percent, or \$1.84 per share, to \$62.01 on the New York Stock Exchange.

Six-month profits were up 12 percent to \$111.3 million, compared to \$99.2 million for the same period last year. Earnings per diluted share were up 11 percent to \$2.27, compared to \$2.05 per diluted share for the first six months of 2013. Excluding the effect of non-cash commodity derivatives, profits were up 26 percent to \$118.1 million, compared to \$93.3 million the same period last year. Earnings per diluted share climbed 25 percent to \$2.41, compared to \$1.93 the same period last year.

Total revenues for the first six months were up 20 percent to \$793.4 million, compared to \$659 million for the first six months of 2013.

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