Matrix eyes growth opportunities for 2015

By: D. Ray Tuttle The Journal Record September 26, 2014 0

John Hewitt, CEO of Matrix Service Co. (Photo by Rip Stell)

TULSA – Matrix Service Co. marked its 30th anniversary with strong results and an eye toward capitalizing on opportunities in 2015.

The challenge for Matrix is to execute on the opportunities while continuing to invest and grow the business, said Mike J. Harrison, vice president of Chicago-based First Analysis Securities Corp.

"The company is well-positioned to capture what we think is secular growth in energy-related infrastructure projects," Harrison said. "That goes for oil and gas on the storage and terminal side as we look at rail and pipelines getting energy from where it is produced to where it can be refined and distributed."

Although Matrix turned in stellar revenue and earnings-per-share figures, the stock price tumbled as the company failed to meet analysts' expectations this month. Even though Matrix shares closed up 10 cents to $24.90 on Friday, the stock is trading one-third lower than its 52-week high of $38.71 set in June.

During an interview with The Journal Record, Matrix CEO John Hewitt described how Matrix has grown from a small tank-repair company in 1984 with 14 people to one that employs 740 people at its Tulsa headquarters and another 5,000 in 30 regional offices across the United States and Canada.

Matrix and its subsidiaries offer engineering, construction and maintenance services while designing, building and maintaining the infrastructure for North American energy, power and industrial markets.

Opportunities exist in a number of markets, including storage, refining and electric power generation, Harrison said.

"We expect Matrix to have a better year on tap in the refinery turnaround business," Harrison said. "This past year was a slow year and that industry tends to go in cycles."

The petrochemical sector is also one Matrix could take advantage of next year.

"A week does not go by that you hear about another company that is considering an investment related to cheap natural gas in the United States," Harrison said. "We expect Matrix to be positioned to win at least some of that business on the petrochemical side."

Matrix had a record year in revenue, backlog and earnings per share, Hewitt said.

"Growth, both through organic and acquisitions, is evident in our financial results," Hewitt said.

Matrix ended fiscal 2014 with revenue up nearly 42 percent to $1.26 billion and earnings per share up 46 percent to $1.33.

However, the share price dipped on the earnings report mostly because of the 2015 guidance management offered. Analysts expected earnings per share next year to be $1.77, but management offered conservative guidance between $1.40 and $1.60 based on revenue between $1.425 billion and $1.525 billion.

Qian Zhang, a market analyst with Tulsa's Fredric E. Russell Investment Management Co., suggested that Matrix guidance was conservative due to the weak earnings growth of two major customers.

In its 10-K filing, Matrix said two customers, TransCanada Corp. and Enbridge, accounted for a combined 30 percent or $379 million of Matrix revenue, all in the storage solutions segment. Separately, Matrix reported that TransCanada accounted for $218.6 million or 17.3 percent of the segment revenues and Enbridge $160.5 million, or 12.7 percent of segment revenue.

TransCanada reported on July 31 the lower-than-expected earnings from its crude oil pipeline and power division, along with no major news on its ongoing expansion project, including its Energy East pipeline, Zhang said.

Enbridge reported on Aug. 1 lower-than-expected earnings because of a less than favorable environment for its energy service business unit, she said.

Harrison said Wall Street expectations were high, which resulted in a negative market reaction. Also, the projects that contributed to the large storage revenue figures are not likely to be repeated this fiscal year, which also put a damper on the share price.

"That weighed on the stock," Harrison said. "A lot of analysts assumed Matrix would grow from there and expectations were a little ahead."

Despite the market reaction, Matrix is capable of moving forward due to the heavy backlog of orders. Matrix reported that backlog at the end of June was up 46 percent to nearly $916 million on project awards of $1.3 billion.

With the success comes a responsibility to ensure the company does not overrun its headlights, Hewitt said.

"We need to make sure we keep up with our growth and control all the things that help us expand," he said.

Harrison said the company's diversification is an advantage as it varies its revenue sources.

"On the one hand you are not going to have all their segments going gangbusters at once," he said. "On the other hand, it would be unusual to see them pull back all at once as well."

In addition, Harrison said, Matrix has plenty of opportunities to grow in its core areas and spread geographically. An example of a potentially strong area for growth is in the electrical infrastructure industry.

"That is almost exclusively an East Coast business and specifically in the Philadelphia-New York City region," Harrison said. "As they look to expand geographically there are lots of different places in the United States that need to upgrade their electrical infrastructure and there are opportunities to build gas-fired electrical power plants to replace the coal-fired plants that have become less economical given the regulatory environment."

Matrix made two acquisitions this fiscal year that are allowing the company to expand into new areas.

"They are expanding the different areas they touch and getting away from what was a very cyclical market in the core Cushing oil storage segment," Harrison said.

The first acquisition, Kvaerner North American Construction, now Matrix NAC, was made in late December 2013. Matrix NAC has extensive expertise in large capital construction and natural gas-fired power plants. The second, HDB Ltd., is a provider of construction, fabrication and turnaround services to the oil and natural gas producers. California-based HDB, now known as Matrix Service, will be able to serve clients in California's Central Valley.

"This strengthens our geographic footprint in one of the largest oil and gas regions in the country," Hewitt said.

All things combined, there is a chance to grow the business both organically and through acquisitions, Hewitt said.

"It is a chance to grow the business across all segments," Hewitt said.

Zhang agreed that Matrix is well-positioned.

"Matrix will continue to benefit from opportunities in the energy, power and industrial markets including maintenance and repair of the existing oil and gas infrastructure, demands for building more new processing hubs, new terminals and storage facilities," Zhang said. "And, Matrix is ready to take advantage of the stricter EPA regulations to build cleaner forms of power generation."

Hewitt said he encourages employees to consider the magnitude of the company's role.

"We encourage our employees to look beyond their desks and projects and realize they are impacting a lot of lives in North America," Hewitt said. "We touch many things that people come in contact with every day, whether it is when they fill their car with fuel or flip a light switch; we touch a lot of the things that affect people's lives."

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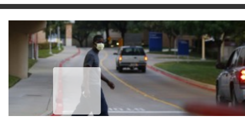

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