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Return Of Confidence At Cabo Drilling As Signed Contracts Increase In All Areas

By Charles Wyatt

There is no doubt, John Versfelt is a hard worker and, as he says on the telephone from Amsterdam, the harder he works the luckier he gets in obtaining contracts for his company Cabo Drilling. The fact that he is in Amsterdam on business is a reminder that his company is not solely involved with mining companies. Over the past four years it has spread from the usual mining and exploration jobs such as surface, reverse circulation and diamond core drilling, directional drilling and underground diamond drilling into soil sampling, dam site investigation drilling and geotechnical, geothermal and geoenvironmental drilling. Cabo has grown into one of the largest international mineral and specialty drilling services providers by being in the right place at the right time with offices in Canada, Albania, Liberia, Mexico, Panama, Spain and the United States.

John admits that the last year to end June, however, was not a happy one. This was particularly the case in North America where, as we know, the directors of many junior mining companies simply pulled down the blinds to conserve sufficient money to pay their own salaries. The result was a 58 per cent reduction in revenues in the last quarter of the year which stands in stark contrast to a 56 per cent growth in revenues contributed by the international divisions. John Versfelt now reckons the worst is in the past as far as North America is concerned as many more contracts have been signed in the early months of the year to end June 2010 as juniors increase their exploration budgets thanks to new financings. It is worth noting that it is gold companies which are leading the way in Canada, with companies such as Kirkland Lake and Queenston Mining to the fore, as well as Mexico and Central America. Companies involved in copper and iron ore are close on their heels.

Out of turmoil comes opportunity and though John had to cut back on costs, wages and personnel, and is still doing so, he took the opportunity to buy six newer drills at very cheap prices from someone who was feeling the squeeze even worse than him. This purchase boosted the quality of his drill fleet and enabled him to put these drills to work at improved margins. Again in our conversation he returned to the fact that revenues from the international divisions represented 65 per cent of the total during the June quarter this year as opposed to only 27 per cent this time last year as confirmation of the wisdom of expanding overseas. Panama provided the biggest boost during the hard times as drill utilisation increased 100 per cent to an average of six drills per month last year.

As things stand John Versfelt reckons that his company is now over the worst of the recession. "The revenue was lowest in the June quarter and since then we have seen improvements in signed contracts into the months since then. You also have to bear in mind that thanks to the way the company reacted at an early stage to the problems, the gross profit margin in that quarter was 29.6 per cent which compares with 20.0 per cent in

the last quarter of the previous year. That is our highest gross margin performance to date and we expect this trend to continue as a result of the operational efficiencies we have introduced and the modernised drill fleet.” The key to success for Cabo going forward will be to watch costs like a hawk and improve the utilisation and performance of each drill.

With field operations and offices in seven countries Cabo has positioned itself to ‘migrate’ efficiently to wherever its services are in demand. It has the ability and expertise to shift its equipment and personnel to best suit market conditions at this time and in the future which puts it head and shoulders above those of its peers who have confined their activities to North America. All purchasing now takes place from the central office rather than from field operations and inventories are being watched very carefully. It will take time before John is sufficiently confident in the recovery to loosen the reins, but improved metal prices due to China’s avoidance of the financial problems hitting the western world and its continuing growth have focused the attention of investors on junior explorers as well as producers. Money is now flowing their way once again and a goodly percentage has to be spent on drilling.

The outlook for the current year to end June 2010 for Cabo Drilling is therefore encouraging. Its finances are still in good order with over C\$400,000 in the kitty as well as short term investments and marketable securities worth C\$40,728. Both these figures mark a sharp fall from those of a year ago, but the company is certainly not on the breadline and is well placed to participate in a general recovery. As so often this last recession made a clear separation of the men from the boys and John Versfelt points to Cabo’s strong management team which has experienced sharp downturns in the past and has many years of experience of managing through tough economic cycles. “They will propel us out of this one and assist in positioning Cabo not only for today, but tomorrow.” No one could confirm confidence more clearly and investors are now starting to understand the position.

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