Is ION Geophysical Corp. a Smart Exploration and Production Technology Stock to Own?

July 21, 2021 5 min read

This story originally appeared on StockNews

Technology-focused seismic solutions company ION Geophysical's (IO) robust pipeline of 3D program opportunities and rapid advancement in the Mid North Sea High program have positioned it well in its niche market. However, the recent dip in crude oil prices could affect its customers' offshore capital spending programs, thereby negatively impacting its growth. Also, investor concerns about rising COVID-19 cases, which could again threaten global demand, could cause the stock price to decline more. Let's discuss.

Asset light global technology company ION Geophysical Corporation (IO) offers data-driven decision-making, acquisition equipment, and processing services to offshore energy, and ports, and defense industries internationally. The Houston, Tex., company operates through E&P Technology & Services and Operations Optimization segments.

Closing yesterday's session at $1.54, the stock is trading 71.2% below its $5.35 all-time high. Furthermore, the stock's price has declined 36.6% so far this year and 24.1% over the past month. IO is currently trading below its $2 and $2.82 respective 50-day and 200-day moving averages, which indicates a downtrend.

IO recently announced its preliminary financial outlook for the second quarter of 2021. It expects its revenues to be approximately $20 million, which represents a 13% decline

year-over-year. Although the company has been making solid progress in its new 3D program in the North Sea, significantly lower multi-client data sales and a significant drop in crude oil prices, on OPEC and its allies' recent agreement to increase output, could maintain the stock's volatility in the coming months.

Here is what we think could influence IO's performance in the near term:

Macroeconomic Headwinds

Because rising infections from the Delta variant of COVID-19 threaten global demand and economic recovery, oil prices slumped below the key $70 level a barrel on Monday, with the commodity witnessing its worst day since March. The Organization of the Petroleum Exporting Countries and its allies' (OPEC+) decision to increase production by 400,000 barrels beginning in August to cool prices has stoked fears of an oil surplus. Investors' concern surrounding the energy industry is evidenced by the SPDR S&P Oil & Gas Exploration and Production ETF's 13.2% decline over the past month. This uncertain backdrop could cause IO's stock to suffer further declines in the coming months.

Bleak Financials

During the first quarter, ended March 31, 2021, IO's total revenue declined 75.1% year-over-year to $14.04 million, due primarily to a lower volume of data library sales and lower proprietary tender activity. Its gross margin was 6% for this quarter, versus 50% in the prior-year period, due primarily to a decline in revenues. IO's loss from operations rose 139.2% sequentially to $10.23 million, while its net loss increased 45.5% sequentially to $7.16 million.

IO's 17.7% trailing-12-month gross profit margin is 55.2% lower than the 39.4% industry average. The company's trailing-12-month ROA, net income margin, and ROTC are

negative 22.2%, 52.5%, and 13.7%, respectively. In addition, its $11.85 million trailing-12-month cash from operations is 96% lower than the $293.40 million industry average.

Unfavorable Earnings Outlook

A $96.98 million consensus revenue estimate for the current year represents a 20.9% decline year-over-year. Furthermore, IO's revenue is expected to decline 28.2% from its year-ago value to $124.37 million next year. Wall Street analysts expect IO's EPS to decline 10.7% year-over-year to negative $2.89 in the current year. The consensus EPS estimate for the current quarter ended June 2021 represents a 97.3% decline from its year-ago value. Also, IO failed to beat the consensus EPS estimates in three of the trailing four quarters.

POWR Ratings Reflect Bleak Prospects

IO has an overall D rating, which translates to Sell in our POWR Ratings system. The POWR Ratings are calculated by considering 118 different factors, with each factor weighted to an optimal degree.

Our proprietary rating system also evaluates each stock based on eight different categories. IO has a C grade for Quality. This reflects the stock's negative profit margin.

In terms of Momentum grade, the company has a C, reflecting its negative price returns over the past month. It has an F grade for Stability. This is consistent with the stock's relatively high 3.25 beta.

Beyond the grades we've highlighted, one can check out additional IO ratings for Sentiment, Value, and Growth here. Of the 93 stocks in the C-rated Energy – Oil & Gas industry, IO is ranked #83.

Click here to view the top-rated stocks in the Energy – Oil & Gas industry.

Bottom Line

Even though IO's North Sea 3D multi-client program has garnered significant attention, concerns surrounding the resurgence of COVID-19 cases and oil price volatility could weigh heavy on its stock in the near term. In addition, the company's poor growth prospects and inadequate financials could lead to a further price decline. Therefore, we think the stock is best avoided now.

IO shares were trading at $1.57 per share on Wednesday morning, up $0.03 (+2.24%). Year-to-date, IO has declined -35.39%, versus a 16.59% rise in the benchmark S&P 500 index during the same period.

About the Author: Imon Ghosh

Imon is an investment analyst and journalist with an enthusiasm for financial research and writing. She began her career at Kantar IMRB, a leading market research and consumer consulting organization.

More…

The post **Is ION Geophysical Corp. a Smart Exploration and Production Technology Stock to Own?** appeared first on **StockNews.com** https://www.entrepreneur.com/article/378014