



Attention Bargain Hunters – The #1 Stock on My Radar

Description

Everybody loves a comeback, right? Well, **High Arctic Energy Services** ([TSX:HWO](#)) is in the process of righting itself after a near death experience through the depths of the financial crisis. It was one of the many firms that found out that a high debt load and low levels of activity in the oil patch are a bad combo. The balance sheet is now clean, the company is generating free cash on a consistent basis, and the stock trades at a ridiculously low multiple of 4x earnings (LTM). There's a lot to like about this energy services play!

Meet HWO

Based in Red Deer, High Arctic operates in the Western Canadian Sedimentary Basin (WCSB) as well as Papua New Guinea – a rare geographic combination. Canadian operations accounted for 36% of revenues over the most recent twelve months and primarily consist of this country's largest fleet of snubbing units.

I've experienced my fair share of snubbing over the years, but prior to coming across High Arctic had no idea this is a necessary service for the majority of newly drilled liquid rich wells, deep and shallow gas wells, and high pressure wells in Western Canada. With a 24% market share, High Arctic is well positioned to take over from many of the folks that I went to high school with and dominate Canada's market for snubbing.

Growth Potential

High Arctic's Papua New Guinea (PNG) business offers intriguing growth possibilities. There exists an extensive resource play in PNG but it is highly undeveloped. High Arctic is one of only a handful of companies operating in the country's energy sector and has contracts in place with an Australian company by the name of Oil Search Limited – an \$8.5 billion market cap company and the largest oil producer in PNG.

Exxon, along with a collection of others, is currently building a liquefied natural gas (LNG) export facility in PNG that is on track for a 2014 start. It is expected that over the 30 year life of this project exports amounting to 9.0 trillion cubic feet of natural gas and 200+ million barrels of associated liquids will be

shipped to other Asian countries from this terminal. Translation, High Arctic expects to be busy in PNG over the next 30 years.

Two Fools on the ground in Australia provided some insight into the PNG energy industry. Both indicated that the resource is real, however, operating conditions in the country are a definite consideration. Very challenging terrain as well as an almost tribal aspect to local government that leads to a significant degree of political instability. This is a high risk, high reward situation.

Stock Specifics

High Arctic offers a monthly dividend and currently yields 4.5%. Their recent record of generating free cash, as well as a balance sheet that has net cash of \$7 million indicate they are well positioned to support this dividend. As mentioned, the stock trades at a ridiculously low earnings multiple of 4.3 which compares to a peer average of 8.5 and probably has much to do with the stock's illiquidity.

Though the company's market cap is \$128 million, its float is just \$29 million. Institutional investors can't play this name. This is also reflected by the minimal sell side coverage that High Arctic receives. According to Capital IQ, just 2 brokers have it under coverage.

Cyrus Capital Partners, a NY based distressed debt firm, is the largest shareholder at 42.6%. Cyrus played a role in High Arctic's near death experience, receiving shares in exchange for their debt position. Cyrus is likely to unload this position at some point but probably not when the shares trade at such a low valuation and prospects seem bright. In addition, the founder and former CEO of the company, Jed Wood, owns 20% through a numbered Alberta corporation. Also, Capital IQ indicates that insiders own a further 14%, something that is great to see with a small cap. Given this ownership structure and illiquid nature of the stock, the sale of the company to a larger concern is not an outlandish end game scenario to consider.

The Foolish Bottom Line

A cursory overview finds much to like about High Arctic and the prospects for the stock. Should activity levels in Western Canada remain robust and if the company is able to capitalize on growth opportunities in Papua New Guinea, this could be a big winner. High Arctic is firmly in our sights and we will provide updates as warranted. There will be many more that hit the radar in the weeks and months to come. Be sure to follow along!

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HWO (High Arctic Energy Services Inc)

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Author

tmfohcanada

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