



Why These 2 Oil Service Stocks Should Deliver for Investors

Description

With oil prices having staged a dramatic fall in the last few months, some drillers are better-positioned for this changing environment. Two — **Pason Systems Inc.** ([TSX: PSI](#)) and **Precision Drilling Corporation** ([TSX: PD](#))([NYSE: PDS](#)) — stand out due to their value-added propositions. Let's have a closer look at these companies.

Pason Systems Inc.

The third quarter was another excellent one for Pason, with 29% revenue growth that was driven by both external factors as well as company-specific factors. The macro environment was certainly positive for the company, with drilling activity increasing 8% year over year in the U.S, and 11% in Canada. But more importantly, Pason benefitted from company-specific strengths and achievements to ensure that it is continuing to grow at above-market rates. Among these are a strong acceptance of Pason's Rig Display, increased product penetration, and much improved EBITDA margins driven by increased operational leverage.

Diving deeper into the results, revenue increased 29.7% in the U.S., which represented 59% of revenue, 19.7% in Canada (29% of revenue), and 39% in the International segment (12% of revenue). Strong performance in the U.S. was driven by a percentage increase in market share, to 62%, increased product penetration, strong performance of the Communications segment (+74.5% revenue growth), and strong acceptance of Pason's new products. The International segment was driven by a 140% increase in Software revenue, and continues to be a strong area for future growth.

An analysis of Pason's results would not be complete without highlighting the company's balance sheet, and the strength and flexibility that it provides. Cash on hand as at the end of the third quarter was \$151 million and the balance sheet is still free of debt. Management says that there are no immediate plans to deploy this cash and that their focus is on using it for organic growth, then dividend growth, and lastly share repurchases.

Lastly, Pason is less vulnerable to commodity price fluctuations than other oil services companies due to its competitive advantage and the value add that its products provide. We can reasonably expect

that Pason will continue to see growth that outpaces industry activity growth. The stock has declined 19% in the last three months so already somewhat reflects this reality.

Precision Drilling Corporation

At Precision Drilling, the third quarter also brought good news, as profit increased more than expectations as a result of higher pricing and higher drilling activity. Revenue increased 20% and EPS increased 80%. Growth in Precision's U.S. business was especially strong, with a 20% increase in drilling days compared to an 8% increase in market activity.

Demand for Tier 1 rigs continues to be strong and since Precision has made the strategic decision to concentrate on these rigs, the company is benefiting from this. As a reminder, these rigs are technologically advanced rigs that can drill the same well in half the time, drill to greater depths, and bore longer horizontals. In fact, Precision is continuing to retire older Tier 3 rigs in favour of the newer and more technologically advanced Tier 1 rigs. The company currently has almost 240 Tier 1 rigs, compared to only 93 Tier 1 rigs only 5 years ago.

There are a number of current proposals to build LNG plants along the coast of British Columbia with anticipated start-up times from 2015 and beyond. There is a flurry of activity in a number of deep basin plays in northwestern Canada, including the Montney, Duvernay, Horn River, and Liard Basin, all of which are well positioned to be a source of supply for the LNG market. This has increased demand for deep, modern drilling equipment in Canada, that is, Tier 1 Super Series rigs. According to management, Precision has booked nearly half of the new builds that are associated with LNG export projects.

Although oil prices have declined, natural gas prices should be on the rise this time of year, and are in fact rising (+8% yesterday). Although the oil services companies and stocks can be very volatile, they offer very attractive returns if we catch them on the way up. Both of these companies that I have discussed have their own unique advantages that I believe will result in them outperforming their peers.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:PD (Precision Drilling Corporation)
3. TSX:PSI (Pason Systems Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/08/24

Date Created

2014/11/24

Author

karenjennifer

default watermark

default watermark