



## Has Pason Systems Inc.'s Stock Bottomed?

### Description

The oil services sector has gotten pummeled in recent months, along with the price of oil and energy stocks in general. There is one oil services stock, however, that has handled the situation extremely well.

**Pason Systems Inc.** ([TSX:PSI](#)) has a differentiated slate of products that sets it apart from other energy services companies, and while the company is hurting from the downturn, it is clear to me that this is a quality company that investors should be looking at in this cyclical low.

Year-to-date, Pason's shares are down 9%, which is a reflection of a company that has managed the downturn in an exemplary manner. As of the third quarter 2015, the company has no debt, \$198 million of cash on the balance sheet, and working capital of \$244 million. To top that off, in the last quarter cash from operations was \$16 million and free cash flow was \$5.9 million. It can ride out this downturn and, when the time comes, emerge even stronger.

The company continues to handle what it has control over really well, namely costs. Canadian operating costs declined 40%, and in the U.S., operating costs declined 33%. The headcount is more than 20% below what it was at the beginning of the year, and discretionary spending is significantly lower.

The cost-reduction initiatives that the company has taken are not fully reflected in the results yet; they were only 50% reflected this quarter. They will be fully reflected in the fourth quarter.

In addition to this, 2016 will see a further cost cuts from the reduction in satellite bandwidth that will take effect at that time. Furthermore, capex is down 50%, although the company will continue to invest in the future; that is, in product development and their international footprint, for example.

### The difference a strong financial position makes

By contrast, **Trican Well Service Ltd.** ([TSX:TCW](#)), whose stock has declined 83% year-to-date, has had a far more difficult time. The company has been forced to take action in order to strengthen its balance sheet.

In the first quarter of 2015, the company did not generate cash flow from operations. In fact, it used \$28.3 million in its operations. In the second quarter, its operating cash flow was -\$50.3 million. And the company came close to the maximum debt it could hold, according to its debt covenants, and it had to take action.

So, back in May, Trican was forced to suspend its dividend. Shortly thereafter, the company decided to sell its Russian division. Both measures result in an improved balance sheet, but these measures were not ideal. And this reality is reflected in the company's stock-price performance.

Some industry experts are calling for 2016 to be the low in the energy industry. Others are saying the lows won't be reached before 2017. Whether Pason's stock has bottomed or not, it seems that it is at least in the range of the bottom. Pason is a good investment for investors to get exposure to a rebound in the sector.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:PSI (Pason Systems Inc.)
2. TSX:TCW (Trican Well Service Ltd.)

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