



Pason Systems Inc.'s Results Provide Evidence of Strengthening Energy Sector

Description

We have seen the carnage that happens in the oil services sector in times of declining drilling activity and pricing pressure as a result of weakening oil and gas prices.

Pason Systems Inc.'s ([TSX:PSI](#)) shares are down 42% since highs seen in 2014, and while this is bad, it does not compare to the hit that other oil service names have taken in that same period. **Trican Well Service Ltd.'s** shares, for example, declined 77.7%, **Precision Drilling Corporation** declined 59%, and **Calfrac Well Services Ltd.** shares fell a shocking 85%.

That's what returns look like in the bad times. But what do they look like in the good times? Well, they look much better. The volatility works both ways, and returns to the upside are just as dramatic. The takeaway here is that with companies such as Pason Systems that have kept clean balance sheets with little to no debt, have accumulated a nice cash balance, and continued to generate cash flow (even free cash flow) at levels of very weak activity, investors can get exposure to this very volatile sector which benefits greatly in the good times.

Simply put, it is companies like Pason which have built a buffer to ensure they have the means and flexibility to ride out the storm and come out even stronger that offer a very strong risk/reward trade off.

Pason has managed the downturn in an exemplary manner, and the outperformance of its shares is a testament to this. Pason also continues to pay a dividend, and its current yield of 3.4% is a good source of income over and above potential capital appreciation. So, investors who are seeking income also stand to benefit from investing in these shares as the yield is quite attractive.

Increasing activity

In Canada, rig activity increased 80% in the first quarter, and Pason therefore reported a sizable increase in rental days for its two biggest sources of revenue, the Electronic Drilling Recorder (EDR), and the Pit Volume Totalizer (PVT). Rental days for these products increased 59% and 56%, respectively. In the U.S., industry activity increased 31%, and Pason reported a 40% increase in EDR rental days and a 46% increase in PVT rental days.

The results reflect this strength with total revenue increasing 29%, earnings per share of \$0.08 compared to a loss of \$0.13 in the same quarter last year, and cash flow from operations of \$21 million compared to \$3 million last year. And cash and cash equivalents increased to \$163 million.

In summary, Pason Systems is reaping the rewards of a strengthening oil and gas industry. It is a great way for investors to get exposure to the upside potential of the oil services sector.

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