Investors: Momentum Returning to the Energy Field

Description

We have seen the carnage 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 time period. **Trican Well Service Ltd.** (TSX:TCW) shares, for example, declined 77.7%, **Precision Drilling Corporation** (TSX:PD)(NYSE:PDS) declined 59%, and **Calfrac Well Services Ltd.** (TSX:CFW) shares fell a shocking 85%.

But **Enerflex Ltd.** (TSX:EFX) shares have actually performed quite well through the cycle; its shares have traded at pretty much the same levels as they did during the highs of 2014, far outperforming its peers.

Enerflex, which delivers a wide array of natural gas and oil infrastructure solutions, has a mix of product sales and recurring service revenue, and this has served the company well; in 2016, recurring revenue accounted for 42% of total revenue, which is increasing the company's stability.

And with revenue across geographies worldwide, 41% from the U.S., 38% from Canada, and 21% from other parts of the world, the company has benefitted from this diversification.

On the financial side, the company's strong balance sheet and cash flow generation has allowed it to increase its dividend by 41.7% over the past five years and gives it the flexibility to continue to pursue growth opportunities.

In the last five years, Enerflex has been free cash flow positive in all but one year (2015) — that's a sharp contrast to many other of its oil services peers.

During the downturn, Enerflex also ramped up its cost-cutting and efficiency efforts; as of the first quarter of 2017, the company's operating margin was 8.5% with the U.S. and the rest of the world posting an 11.7% and 10.8% margin, respectively. Canada was more challenging at -2.2%, but this should improve this year as business is strong so far and is exceeding expectations.

In the first quarter of 2017, Enerflex reported a 30.6% increase in revenue — an almost 70% increase in EBITDA and a more than doubling of its backlog.

Enerflex is expected to continue to benefit from increasing natural gas production, its increasing complexity (horizontal drilling has dramatically increased in numbers and in complexity), and the increasing need for energy infrastructure, not only in the very prolific Permian Basin, but also around the world.

Longer term, international gas demand continues to grow, and Enerflex is well positioned to be a part of any future possible LNG development around the world.

The stock is rallying off of these results and currently has a dividend yield of 1.8%.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:CFW (Calfrac Well Services Ltd.)
3. TSX:EFX (Enerflex Ltd.)
4. TSX:PD (Precision Drilling Corporation)
5. TSX:PSI (Pason Systems Inc.)
6. TSX:TCW (Trican Well Service Ltd.)

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