



Pason Systems Inc. Turns Free Cash Flow Positive and Has a 4% Dividend Yield

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 51% since highs seen in 2014, and while this is bad, it is better than the hit that other oil service names have taken in that same time period. **Trican Well Service Ltd.** ([TSX:TCW](#)) shares, for example, declined 72%, **Precision Drilling Corp.** ([TSX:PD](#)) ([NYSE:PDS](#)) declined 76%, and **Calfrac Well Services Ltd.** ([TSX:CFW](#)) shares fell a shocking 84%.

But although this sector is very volatile and can be very bruising to a portfolio's returns in bad times, it can provide investors with very attractive returns in good times. So, have the stock prices in this sector bottomed?

Well, for one oil service company at least, their stock price is closer to the bottom than it has been in a long time.

Pason is a high-quality company that has been through downturns before, and really, from a high-level perspective, this latest downturn was no different.

The business is cyclical, and the companies that will survive and thrive not only know this, but they are also prepared for it. Pason was well positioned for the downturn, and the company kept cash on its balance sheet and has limited debt. In fact, as of the latest quarter, the company had \$166 million in cash and still no debt on the balance sheet.

This is key because in times of downturns, the companies with the strong balance sheets will have the ability to not only stay on top of day-to-day business, but also to look for and act on any attractively valued companies out there that are struggling. Companies that are able to make acquisitions and buy assets on the cheap in downturns are the ones that will emerge stronger.

Pason's second quarter saw a significant uptick in revenue, earnings, and cash flow — all were much higher than last year. Revenue was 105% higher, net income was \$6.9 million versus a loss of \$11.3 million, and free cash flow was approximately \$20 million.

The results benefited from increased drilling activity in Canada and the U.S., as well as cost-savings initiatives the company instituted when times were hardest in recent years.

Of course, through all of this, investors need to keep in mind that the company is still very vulnerable to the price of oil and gas, but, at the end of the day, this is a high-quality company that is beginning to see improved results, and so the risk/reward relationship is very favourable.

As an extra incentive, the shares currently have a dividend yield of 3.95%.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

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