Attention Investors: Get Exposure to Explosive Growth in the Oil Services Sector

Description

The energy services sector is notorious for being a high-risk/high-reward sector. When things are working in its favour, the stock returns are phenomenal, while when the tide turns, the downside is brutal.

So, the question is, are we heading for good times? And is it time yet to bulk up on our exposure to get access to these potential phenomenal returns?

Well, we know two things for sure: oil prices are rallying, and North American drilling is picking up in response.

And as a result, it seems to me that oil services companies are on the cusp of breaking out, as they are reporting higher activity levels, significantly higher revenue, earnings, and cash flow. What follows next is higher share prices, which are currently trading at very depressed levels.

Calfrac Well Services Ltd. (TSX:CFW) shares lost a whopping 95% of their value from highs of more than $21 in 2014 to lows of just over $1 in early 2016.

But Calfrac reported third-quarter results recently that show a very strong recovery in its business, with revenue increasing 156% and earnings per share coming in at $0.06 versus a loss of $0.35 in the same quarter last year.

The company is very active in the high-growth Alberta Deep Basin and northeast British Columbia areas, and it has good exposure to the Permian Basin in the U.S.

Pricing was stronger in the quarter, and as pricing recovers, margins rise.

The problem with Calfrac is that the company still has a very heavy debt load (68% total debt to capitalization), and this places too much pressure on the company, in my view, and ups the risk profile of the shares.

On to **Precision Drilling Corporation** (TSX:PD)(NYSE:PDS). While the company reported a loss per share in the third quarter, the loss was smaller than expected, and it was 44% better than last year (a loss of $0.07 versus $0.16 last year).

Revenue increased 47%, and the company generated $37 million in cash flow.

The company had more than double the amount of rigs working than it had last year, and pricing remained firm as the sector continued to ramp up.

Precision Drilling shares also got killed in the last two years and fell to approximately $2 from well above $14 in 2014.

As a more geographically diversified name with a more differentiated product offering, **Pason Systems Inc.** (TSX:PSI) represents a lower-risk way to get exposure to this sector. The shares have been volatile, but relatively less so than the other companies mentioned.

Pason's shares fell from $35 in 2014 to just over $16 in 2016 and have hovered in the $16-18 range since then — a fall of 54%.

Pason reports its third-quarter results on November 7.

So, as we can see, this is a highly volatile sector but, if we are now on the road to a recovery, we can get a big boost to our portfolios in the months to come.

CATEGORY

1. Energy Stocks
2. 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.)

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