



Things Are Looking Up for This Small-Cap Data Biz

Description

Pason Systems Inc. ([TSX:PSI](#)) is a Calgary-based company that brings technology and data to the oilfield, improving drilling operations of operators in the U.S., Canada, and internationally.

As anyone who invests in the TSX knows, the index's performance over the past three years has been severely hampered by a slumping oil industry. While Pason might have some of the best data analytic products anywhere, when the oil industry gets the flu, Pason suffers right along with all the producers.

Pason hit rock bottom in 2016, generating revenues of \$160 million — one-third its annual sales just two years earlier. In the process, it went from an operating profit of \$258 million in 2014 to just \$15 million in 2016.

Naturally, Pason's share price suffered greatly, dropping from \$35 in August 2014 to around \$20 heading into 2017.

The worm began to turn

Fool.ca contributor Karen Thomas has been a big supporter of Pason since she first wrote about the company in 2014.

"Pason is armed with a healthy balance sheet, almost no debt, very strong cash flow generation, and access to credit markets. The company could make a game-changing acquisition or just continue to make smaller acquisitions. It will continue to spend on R&D in order to expand its markets, and it has a fantastic core business generating piles of cash," Thomas [wrote](#) in August 2014. "These things are what give me confidence that growth at Pason will be picking up."

In hindsight, we know that's not what unfolded, but you can't blame Thomas for failing to see the precipitous decline in the price of oil. Most didn't.

However, Thomas stuck with Pason, and it looks like her confidence in the company will finally pay dividends, both literally and figuratively.

Things turned for the better starting in Q4 2016 when the pace of declining revenues and funds from operations slowed considerably, offering hope of a rebound.

“The environment for oilfield services remained challenging worldwide during the fourth quarter of 2016,” stated CEO Marcel Kessler in the company’s Q4 2016 report. “However, signs of improvement have started to emerge.”

Over the next four quarters, Pason’s revenue, funds from operations (FFO), and free cash flow (FCF) increased by 53%, 225%, and 1,010%, respectively.

Strange response from investors

Despite delivering much-improved financials February 27 after the markets closed, Pason’s stock barely moved in the next day’s trading, up less than 2%.

In August last year, Thomas [highlighted](#) the fact the company turned FCF positive, generating \$20 million in Q2 2017. At the time, its stock was trading around where it is today and not much higher than where it traded at the beginning of 2016, despite signs its business was getting stronger.

Clearly, investors feel oil prices are about high as they can go, or they’d be buying Pason’s stock with both fists.

I have no idea if Thomas is going to recommend its stock one more time, but she should, because things are looking up for this Albertan small cap.

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