Invest in These 3 Oil Services Stocks for Massive Upside

Description

For those investors who are looking for big returns, I would consider looking at the energy services sector. While stocks in this sector are notorious for big and volatile price movements, there is at least a way to value them — fundamental reasons to buy or sell.

When the industry is in an upswing, the stock returns are phenomenal; when the tide turns, the downside is brutal.

At this time, we are seeing the beginning of an upturn that I think may accelerate, despite the uncertainties in the Canadian oilfield, as evidenced by the continued strength in the oil price, improving supply/demand fundamentals, and the improving financials that these companies are posting.

Calfrac Well Services Ltd. (TSX:CFW)

Calfrac is very active in the high-growth Alberta Deep Basin and northeast British Columbia areas, and it has good exposure to the prolific Permian Basin in the U.S. So, with good exposure to the North American market, the stock can be expected to make significant gains on the back of increased drilling and pricing power.

Let's go back in time a bit to review the volatile history of this stock, which is consistent with the volatile history of energy services stocks in general.

The stock lost a whopping 95% of its value from its highs of more than $21 back in 2014 to lows of just over $1 back in early 2016. Now it is trading at just over $5.50.

But this is still the early stages of a recovery from the oil bust a few years ago. And as the company continues to build momentum, as evidenced by its first-quarter 2018 results, a booming business should be exposed.

Revenue increased 117%, adjusted EBITDA increased 238%, and EPS swung from a loss of $0.14 to a gain of $0.02.

The company's job count increased 59%, revenue per job increased 44%, and the company is free cash flow positive (excluding changes in working capital).

Trican Well Service Ltd. (TSX:TCW) has not done as well in recent times, with utilization levels falling for the company, as the Canadian oilfield environment has remained challenging.

But, with the economy humming along nicely, oil prices continuing to be strong, and Trican's shares trading at extremely attractive levels (significantly below replacement cost), I see the bottom for the stock.

Precision Drilling Corp. (TSX:PD)(NYSE:PDS) shares have been range-bound this year, but the company has been investing heavily to upgrade its fleet in order to be prepared for the rebound in drilling activity.

The company has generated free cash flows and achieved strong increases in revenue in the last few quarters. Debt reduction remains a focus, and we are seeing real progress on that front.

Precision saw a big ramp in rigs working in 2017, and pricing remains firm as the sector continues to ramp up.

In summary, the oilfield services sector has really taken a beating, but this sector remains an important part of the energy business. Getting into these highly cyclical stocks at cyclical lows (i.e., now) is a good strategy to set your portfolio up for massive returns, as the cycle bottoms and makes its way to cyclical highs.

CATEGORY

1. Energy Stocks
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2. TSX:CFW (Calfrac Well Services Ltd.)
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Date

2025/07/02
Date Created
2018/07/21
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