

Double Your Money With These Stocks

Description

The oil and gas drilling stocks are trading at near multi-year lows. Improved oil prices that have seemingly stabilized above \$60 per barrel, with the WTI oil price sitting at +\$70 per barrel, should lead to increased drilling activities to turn sentiments from negative to positive for the industry and the [underlying stocks](#).

Recently, both **Ensign Energy Services** and **Precision Drilling** ([TSX:PD](#))([NYSE:PDS](#)) made a move to acquire **Trinidad Drilling** ([TSX:TDG](#)).

Precision Drilling's offer was better. Last week, it announced it has entered into an arrangement agreement with Trinidad Drilling to acquire the company using its common stock for a transaction value of about \$1,028 million, including the assumption of about \$477 million of net debt.



Benefits of the merger

In the recent press release, Kevin Neveu, President and CEO of Precision Drilling stated, "This transaction creates exceptional value for both Trinidad and Precision shareholders. The combination provides a truly unique opportunity to combine two highly-focused drilling contractors that are pursuing similar growth initiatives and competitive strategies and importantly, operating similar Tier 1 assets."

The combined portfolio will have a North American fleet with +200 active rigs and 322 total rigs. Precision Drilling will be the third-largest driller in the United States with strong positions in key shale plays and will be positioned for improving industry activity.

The combined company will have improved cash flow generation capabilities in Canada from fixed cost leverage and operating synergies. Trinidad Drilling has assets that are complementary to Precision Drilling's, including its customer mix and rig fleet.

So, the combined company will be well positioned for liquefied natural gas and Deep Basin development.

Because there are commonalities between the two companies, the merged company is expected to lower cost by improving its corporate efficiencies and consolidating its facilities. In 2019, Precision Drilling expects to realize +\$30 million in annual synergies.

What should shareholders do?

The transaction is expected to close late this year. Upon its completion, current shareholders of Trinidad Drilling will collectively own about 29% of Precision Drilling. So, current Precision Drilling and Trinidad Drilling shareholders can't do much but hold on to their stocks to ride on the recovery of the industry.

In fact, if they're bullish about the deal or the industry, it's a good time to consider buying more shares to get a lower average cost basis.

Investor takeaway

The oil and gas drilling business is [cyclical](#). Stocks in this industry are considered to be riskier and above-average volatile. So, they're not for everyone. However, they're at a low end of the cycle, and with higher and stabilized oil prices, more drilling activities can breathe life and vitality into these companies and their stocks. An investment in these stocks today can double in a few years.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:PD (Precision Drilling Corporation)
3. TSX:TDG (Trinidad Drilling Ltd.)

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