



Why This Well-Timed Acquisition Will Send This Energy Stock Soaring

Description

Consolidation in the energy services industry has been kicked up with **Precision Drilling Corp.**'s ([TSX:PD](#))([NYSE:PDS](#)) \$1 billion acquisition (including \$477 million of net debt) of **Trinidad Drilling Ltd.** ([TSX:TDG](#)) in an all-share transaction

I must say that a company that is buying at this time of [low valuation](#) is a company I like.

Energy services stocks are trading below book value and at tiny multiples compared to their peak earnings capability.

And with oil prices trading at over \$73 at the time of writing, natural gas pricing strong in the US, and now strengthening in Canada as well, we have reason to believe that peak earnings will happen sooner rather than later.

Market conditions in Canada and the U.S. are improving, meaning higher day rates, higher margins, and higher activity levels and translating to higher earnings, higher cash flows, and ultimately higher stock prices.

Back to the acquisition of Trinidad Drilling.

The combined company will create a leading North American energy services company aimed at leveraging the transition to high performance drilling, with 152 Canadian rigs, 170 U.S. rigs, as well as 26 international rigs.

It will remain the largest Canadian land driller, and it will become the third largest U.S. land driller (previously the fourth), with high-quality rigs and a well-diversified customer mix.

While Precision's latest earnings releases have come in below expectations, free cash flow generation remains strong and the company remains well positioned to benefit from the recovery in drilling that is underway.

During the downturn, Precision invested heavily in its fleet, meaning that it now has a high-grade rig

fleet that should enable it to capture market share as the industry recovers.

It's similar to Trinidad's strategy.

So now we are left with the combined company that will bring many benefits.

According to Precision management, the acquisition will bring immediate cost synergies, operating efficiencies due to scale, and it will be significantly accretive to cash flow starting in 2019.

While Precision has taken on even more debt with this acquisition, management's plan to drastically reduce debt will play out over the next few years, which will serve as a catalyst for the stock price along with strengthening fundamentals and the benefits of the acquisition.

Pricing continues to firm, activity continues to increase, and the second half of 2018 should see a continued ramp in cash flow and [energy stock](#) prices.

Getting into these highly cyclical stocks energy stocks at cyclical lows is a good strategy to set your portfolio up for massive returns as the cycle bottoms and makes its way to the highs.

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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