This Energy Stock Popped 15% Yesterday, With More Upside to Come

Description

In a tale of two opposites, two earnings reports in the energy patch came in yesterday that are of interest to me. One company is firing on all cylinders, benefiting from positive short-term and long-term fundamentals, and one is seeing pain in all directions.

While it may seem obvious, let's look at the two more closely and determine which is the better buy.

Pason Systems (TSX:PSI) is in a sweet spot right now, as high oil prices have continued to drive drilling activity higher, and as such, the company just reported third-quarter EPS of $0.28, significantly above expectations, driving the stock price 15% higher at one point yesterday.

Pason is a global energy services company that is involved in the oil and gas extraction business, or the drilling business, as it provides leading-edge instrumentation and data-management systems for drilling rigs.

The company's patented technology, global diversification, and 3.10% dividend yield make it a relatively safe bet in the risky oil services industry.

Pason has a strong track record, and when we look at its history, we can see evidence of strong cash flow generation, consistent dividend increases, and a very profitable business model.

In the first nine months of 2018, Pason reported a 25% increase in revenue, an 828-basis-point increase in EBITDA margins, and a 62% increase in funds flow from operations.

With a solid balance sheet and no debt, this energy stock is well set up to continue to profit from a strong energy market.

Peyto Exploration and Development (TSX:PEY) is struggling with persistently low natural gas prices, as reflected in third-quarter cash flows, which declined 16% year over year due to lower production.

Due to low prices, management made the decision to shut in certain unhedged natural gas volumesthis quarter, and they are also attempting to combat low prices by focusing more on liquids.

So, naturally, the stock was down after the report to the tune of 5% at the time of writing.

For 2019, cash flows should look better, as 20% of volumes will be exposed to U.S. natural gas pricing. The company has shifted its drilling focus to liquids in an attempt to be flexible and respond to market conditions.

Longer term, natural gas pricing has some short-term and long-term bullish signs.

In the short term, natural gas prices should get support from storage, which is at five-year lows, and in the long term, the LNG opportunity has been reignited, as LNG Canada received approval earlier this year.

Peyto stock has a dividend yield of 6.59%, which is still easily covered by cash flows and remains safe at this time.

In my view, both energy stocks are quality names, with Pason stock being the less-risky one and Peyto stock being the higher-risk option with more upside but also more downside.

Both are dividend stocks, so investors get access to a stream of income while they wait for things to play out.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:PSI (Pason Systems Inc.)

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