The Embattled Oil Services Sector Is Gearing Up for Better Times

Description

When all the talk about the energy sector is about bad news and dire futures, it is easy to get lost in it at the expense of those companies that are bucking the trend. Let's take a look at a few oil services stocks in order to think about this.

While this sector has certainly been suffering in recent times, there are bright spots.

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

And now there is a competing offer by **Ensign Energy Services**.

I have to say, a company that is attempting to buy at this time of low valuations is a company I like. Energy services stocks are trading below book value and at tiny multiples compared to their peak earnings capability.

And although oil prices in Canada have been severely hit in recent times, natural gas pricing is strong in the U.S., and it's now strengthening in Canada too, so we have reason to believe that peak earnings will happen sooner rather than later.

So, while we don't know what the outcome of this merger activity will be, we do know that Trinidad is backing Precision's bid, not Ensign's.

The combined company will create a leading North American energy services company that is aimed at leveraging the transition to high-performance drilling. It will remain the largest Canadian land driller, it will become the third-largest U.S. land driller (it was the fourth), with high-quality rigs and a well-diversified customer mix.

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.

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

With exposure to the global oil market, **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.

Pason is a global energy services company that provides leading-edge instrumentation and data management systems for drilling rigs.

The company's patented technology, global diversification, and 3.29% 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.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:PD (Precision Drilling Corporation)
3. TSX:PSI (Pason Systems Inc.)
4. TSX:TDG (Trinidad Drilling Ltd.)

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