



A Quality Stock in a Volatile Space

Description

Pason Systems ([TSX:PSI](#)) is a success because it helps its clients succeed. It transforms data into smarter drilling. Specifically, it provides a fully integrated, end-to-end drilling data solution, which allows its clients to collect, manage, report, and analyze real-time drilling data to optimize their drilling operations.

A well-managed company

One big hint that Pason Systems is [a very well-managed company](#) is the fact that it achieved the highest recent net margin among its peers. Specifically, in the last four reported quarters, its net margin was 15.3%, which was way ahead of the runner-up's net margin of 8.8%.

Not only does Pason Systems have industry-leading profit margins, but it also has a pristine balance sheet; it has zero long-term debt. Furthermore, in the last reported quarter at the end of September, the company had cash and cash equivalents of almost \$120 million, which was more than enough to pay off its current liabilities of about \$45 million with lots of cash left over.



Stock strength

Pason Systems stock is showing some strong momentum. Year to date, the stock has already

appreciated 15%, while the TSX Index has only climbed 7%. There are multiple reasons for Pason Systems' stock strength. First, the stock declined to a low with the market in December, at which time it was relatively cheap. Second, the company is in a cyclical industry, which calls for an above-average volatile stock. So, it can rise higher and fall harder compared to the market. Third, the company is well run as previously mentioned.

Is Pason Systems' dividend safe?

At about \$21 per share as of writing, Pason Systems offers a yield of 3.4%. Since 2003, the company has maintained or increased its dividend. Its annualized dividend is 18 times it was from 2003! So, if you got \$100 of dividends then, you would get \$1,800 now. Its declared dividends in the first nine months of 2018 were 46% of funds flow from operations, which seems conservative.

As well, in the period, it generated almost \$69 million of free cash flow. In summary, it seems the company generates strong cash flow and the management is committed to the dividend.

Should you buy Pason Systems now?

Analysts are bullish on Pason Systems. **Thomson Reuters** has four "buy" and two "hold" ratings on the company with a 12-month mean target of \$25 per share, which represents near-term upside potential of about 18% from the recent quotation.

If you like the oil & gas equipment and services space, [Pason Systems](#) is the top company to consider. However, since the energy space is volatile, for a greater margin of safety, look for an entry point at a 4% yield. Based on the current quarterly dividend of \$0.18 per share, it would imply a target buy price of \$18 per share.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:PSI (Pason Systems Inc.)

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