3 Oil Services Stocks Under $20

Description

When oil prices fall, energy producers are hit hard. The companies that support them are also pressured. This can provide limited-time buying opportunities.

After energy prices rise, the stocks of oil producers typically spike first. It may take a few quarters for oil services stocks to rebound, meaning early investors have an ideal chance to buy low.

Now that oil prices are on the rise, many oil services stocks remain depressed. If you're looking to take advantage, here are three potential options.

Pason Systems (TSX:PSI)

In August of 2014, Pason Systems was flying high. With oil prices above US$100 per barrel, Pason stock surpassed $35 per share.

When oil prices plummeted later that year, Pason stock dropped by 50%. Shares still haven't recovered.

In 2014, Pason was able to generate revenues of $430 million by providing services to collect, manage, report, and analyze drilling data. Suffice to say that Pason's business lives and dies according to drilling activity.

When oil prices fell, drilling activity fell off a cliff. Revenues in 2015 were halved to just $205 million. In 2016, sales nearly halved again to $120 million.

However, Pason is proving that it can survive in lower-for-longer conditions. Last year, revenues rose to $225 million, generating profits of $46 million. Pason has managed this shift by providing more services that help drillers cut costs rather than grow operations.

Shares trade at just 16 times forward earnings, making this an under-the-radar value pick.

Secure Energy Services (TSX:SES)

Secure Energy provides a wide range of oilfield services from remediation and reclamation to pipeline maintenance and demolition. Nearly any service an oil driller needs can be provided by Secure Energy.

Secure Energy has a similar history compared to Pason. In 2014, shares hit $26. Today, they're under $8, within the same range they've traded in for nearly four years.

Shares trade at a pricier 27 times earnings, and it's not hard to prefer Pason over this stock. While Pason has pivoted towards making its customers more efficient — a service that will be in demand no matter the prevailing oil price — Secure Energy remains more exposed to overall drilling activity.

The lesson here is to stick with more specialized oil services stocks. Secure Energy is more broadly diversified but at a steep cost.

Calfrac Well Services (TSX:CFW)

With a market cap of just $420 million and a share price under $3, Calfrac is a boom or bust investment. Last year it posted a $13 million loss from $1.7 billion in sales.

If you're thinking the company can turn things around based on rising energy prices, think again.

In 2014, when oil prices averaged above US$100 per barrel, the company earned only $58 million from $2.2 billion in sales. It would go on to lose a combined $300 million over the next four years, nearly as much as its current market cap.

With only $38 million in cash versus $725 million in debt, the clock is running out. In the end, Calfrac's services aren't specialized enough to turn a profit in the current environment.

Bottom line

The urge to bottom-pick this industry is enticing. If you jump in, avoid commoditized operators like Calfrac and Secure Energy. Pason Systems appears better run, with a greater ability to differentiate itself during difficult conditions.

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1. Energy Stocks
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2. TSX:PSI (Pason Systems Inc.)
3. TSX:SES (Secure Energy Services)

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rvanzo