Why This Energy Stock Could Double

Description

Canada's oil and gas industry is ripe with potential. The industry has been faced with two significant headwinds – oil price volatility, and pipeline constraints. The latter has led to record price differential between Western Canadian Select (WCS), otherwise known as heavy crude, and West Texas Intermediate (WTI). This is the benchmark oil price in North America.

The record price gap led to ill-advised production cuts imposed by the Government of Alberta. Several high-profile CEO's have come out against the production cuts, claiming that it made oil-by-rail economically unfeasible. Fair enough: we aren't here to debate these impacts.

It has however, led to share volatility and bargain basement prices. Case in point: **CES Energy Solutions** (TSX:CEU). CES provides chemical solutions through the life-cycle of the oilfield. When drilling is robust, CES Energy is well positioned to benefit. Year to date however, the company has struggled losing 25% of its value.

The past week, the company released first-quarter results. Is the company a buy at today's prices near 52-week lows?

First-quarter results

It was a mixed quarter for the company. Earnings of $0.01 per share missed by $0.02, while revenue of $322.99 beat by $2.99 million. From an operational standpoint, it was a decent start to the year. Adjusted EBITDA grew as U.S. operations expanded. Canada remains challenging, but as the market leader, it has the flexibility to remain disciplined and scale as necessary.

Impressively, cash provided by operating activities jumped 120% over the first quarter of 2019. Its major capital expenditures are behind them, and as such it is well positioned to re-direct cash flows to future growth opportunities.

It is important to note that although Canada remains challenging it accounts for only a third of revenue. The U.S. segment has been expanding, accounts for 68% of revenue and grew 25% year over year.

Attractive valuations

CES Energy's stock is cheap, and is trading below book value (0.89) and at only 0.49 times sales and 11.14 times forward earnings. These are well below industry and company averages. The company also believes that its stock is materially undervalued and has drawn on its line of credit to repurchase shares under its normal course issuer bid program.

Analysts are also unanimous in their coverage of the company. All twelve rate the company a *buy*, and have a one-year price target of $4.96 per share. This implies 111% upside from today's price of $2.34 per share. Even the lowest estimate of $3.00 per share would result in a hefty return of 28 per cent.

This past week, the company's stock also entered oversold territory. CES Energy's 14-day RSI is currently at 25, which is below the critical value of 30. This means that the company's stock may be due for a rally.

Foolish takeaway

CES Energy Solutions is expanding U.S. operations and biding its time until such time that the Canadian oil and gas market rebounds. In the meantime, it offers investors a safe and reliable 2.14% yield and attractive valuations. Once Canadian operations perk up, this stock can double.

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