



2 Energy Stocks With Safe Dividends and Upside

Description

Energy stocks have underperformed the stock markets, and many cut their dividends in the past. However, **Shawcor** (TSX:SCL) and **Pason Systems** ([TSX:PSI](#)) have [strong dividend track records](#). Furthermore, their dividend yields are above average in the energy services industry. Most importantly, they're trading at attractive valuations, which will likely lead to outsized stock price appreciation in the future.



The businesses

Shawcor is a global energy services company specializing in products and services for the pipeline and pipe services segment of the oil and gas industry and related products for the petrochemical and industrial market.

Early this year, Shawcor acquired ZCL Composites at a steep discount after ZCL lost about half of its market capitalization. ZCL's business of manufacturing and distributing fiberglass-reinforced storage tanks complements and expands Shawcor's offerings.

Pason Systems provides specialized data management systems for drilling rigs. Its solutions include

data acquisition, well site reporting, remote communications, and web-based information management. The solutions conveniently allow for collaboration between the rig and the office.

The company's equipment and technology solutions for oil and gas producers have leading market positions in North America, South America, and Australia.

Profitability

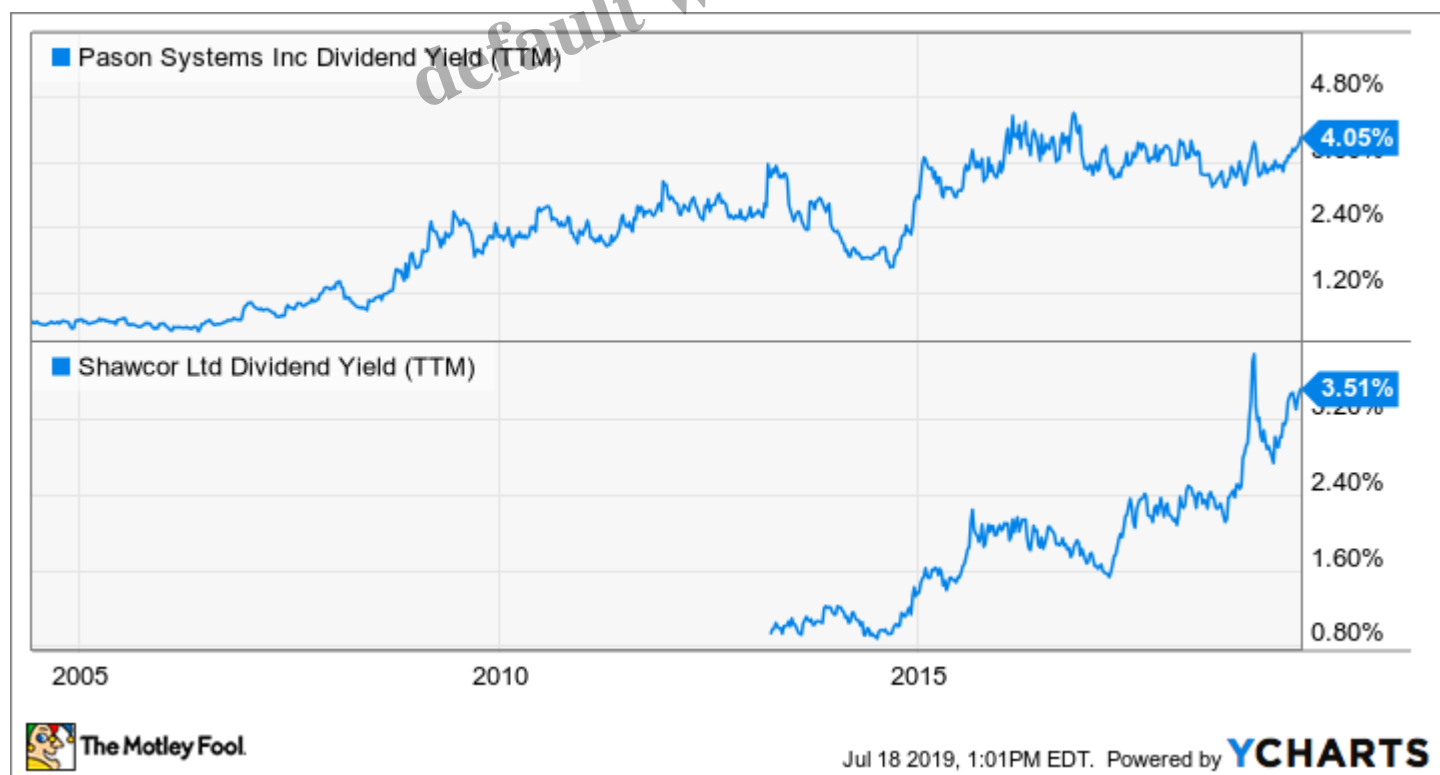
Revenue growth can help boost company earnings. So, it's always good to see. Unfortunately, Shawcor's revenue declined 22% to \$1.4 billion from 2015 to 2018. That said, the ZCL acquisition should help boost revenues down the road. The company's recent operating and net margins were 2.6% and 0.8%, respectively.

Pason Systems is faring much better. Its three-year revenue-growth rate was 2.4%, while its recent operating and net margins were 32.5% and 22.1%, respectively.

So, Shawcor has more room for improvement in its profitability.

Dividend

Both companies offer historically high yields, which indicates the stocks are undervalued.



PSI Dividend Yield (TTM) data by YCharts.

At about \$17.10 per share as of writing, Shawcor offers a yield of roughly 3.5%. It had negative free cash flow in the trailing 12 months, but in the past three years, it only paid out 45% of its free cash flow

as dividends.

So, there's a good chance that Shawcor's payout ratio will improve and that its dividend is safe. Since 2000, Shawcor has increased its dividend at a compound annual growth rate of 11.1%.

At about \$17.80 per share as of writing, Pason Systems offers a yield of roughly 4%. In the trailing 12 months, it paid out approximately 91% of its free cash flow as dividends. Since 2003, Pason Systems has increased its dividend at a CAGR of 20.5%.

Foolish takeaway

Shawcor has greater [upside potential](#) than Pason Systems. The 12-month mean analyst target is 54% higher from current levels for Shawcor and 38% for Pason Systems. In any case, both stocks should trade at much higher levels should there be higher oil prices, which would lead to more activity at the oil patch and greater usage of Shawcor and Pason Systems's products and services.

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