



## Buy This Quality Energy Stock Today for Explosive Upside

### Description

The energy sector has been a difficult place to be for investors in the last few years. But today, it is a truly attractive sector in terms of valuation and potential stock returns. As an illustration of just how bad it's been, we can look to the negative 58% five-year performance of the TSX Capped Energy Index.

In this article, I would like to review a Canadian energy stock that is not very well known but that investors may want to get to know as this stock truly has explosive potential upside. **Mullen Group** ([TSX:MTL](#)) is a leading oilfield services and transportation/logistics company with a management team that has a solid track record of being good stewards of capital.

### Diversified business model spells competitive advantage for Mullen

Throughout the years, Mullen has benefitted from the fact that it operates in two segments: the oilfield services segment and the trucking/logistics segment, which today represent 31% and 69% of revenue, respectively. This diversification has sheltered Mullen to some degree from the difficulties in the energy sector, and the strength in its trucking segment has enabled the company to barrel ahead with its acquisition strategy.

As a case in point, last year Mullen acquired AECOM, an energy services company that operates mostly within [Alberta's heavy oil and oil sands regions](#). This acquisition brought with it \$70 million in annual revenue along with many opportunities to realize synergies. In fact, we have seen this in Mullen's latest quarter, where the company was able to increase EBITDA margins in the oilfield services segment by 141 basis points to 17% partly due to synergies.

### This energy stock is in the driver's seat

Mullen remains well capitalized with \$85 million in cash on its balance sheet and relatively conservative debt levels, with a net-debt-to-total-capital ratio in the mid-30% range. This will continue to afford

management the ability to acquire businesses that are distressed at extremely attractive valuations.

We know all too well that the oil and gas industry remains in a distressed state and economic growth remains small and shaky. This has brought many energy companies to their knees, and this is where Mullen has the chance to capitalize on the crisis. Mullen is financially ready and able to purchase quality assets on the cheap, and being in the driver's seat in this buyer's market will enable the company to generate strong long-term returns and shareholder value.

## Opportunities and catalysts waiting around the corner

In the meantime, Mullen is also investing in technology and focusing on what is working today. In its trucking business, the rise of e-commerce has put pressure on all trucking companies to reduce their delivery times and windows, to adapt to shorter hauls, and to adapt to growth in less-than-truckload and final-mile delivery demands. Mullen is focusing on the high-growth GTA urban centres to capture more of the e-commerce trucking market.

In the oilfield services business, [the sanctioning of LNG projects is good news](#) for Mullen. Mullen's CEO has stated that they are getting a lot of "stress calls" these days, and that they are waiting patiently for the next attractive opportunity to pounce on. When competitors are folding and you are still standing, opportunities fall into your lap. Mullen is setting the price and will only engage on its terms.

## Foolish bottom line

Mullen remains in a very difficult macro environment, but the company is doing well on a company-specific level. The only way to achieve growth in its oilfield services segment these days is through acquisitions, and while Mullen is doing well in its trucking segment, big changes in the trucking industry need to be figured out and responded to appropriately to keep Mullen in the game and to drive future profit.

At this point, Mullen trades at cyclical lows of 1.1 book value. Given this cheap valuation, coupled with the catalysts and opportunities discussed in this article, it is my view that Mullen stock has explosive upside for patient investors who are willing to wait. While you wait, Mullen stock gives you an attractive 5.87% dividend yield.

### CATEGORY

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karenjennifer

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