1 Ultra-Cheap Energy Services Stock to Buy Today

Description

Energy services companies have had one of the toughest times in the last half decade, arguably more so than the exploration and production companies.

When the producers had their finances severely impacted and consequently had to cut their spending massively, energy services companies were the number one industry impacted.

A number of the energy services companies are now trading at steep discounts to their fair value, especially the ones that have been increasing their fair value with quality execution on their respective turnaround plans.

One company that looks specifically attractive on a long-term value basis is **Precision Drilling** (TSX:PD)(NYSE:PDS). Precision Drilling has a rough past, but the stock looks like it's finally ready for a rebound.

Its U.S. drilling business, which made up about half of the company's revenue in 2018, continues to improve and drive Precision's growth as it expands market share in the U.S. Currently, Precision estimates it has more than 8% of the American market share.

One of its top strategic priorities is to reduce debt using its free cash flow. Precision has already cut its expected capital expenditures for this year and next, and announced additional debt reduction of roughly $200 million this year.

The debt reduction has been helping Precision to strengthen its financial position considerably the last few years, increasing its interest coverage ratio to more than 3.1 times from roughly 1.5 times in 2016.

Similarly, it has been decreasing its net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio by increasing its EBITDA in addition to paying down debt. Currently, the ratio stands around 3.5 times, and the company has a target to get it below two times.

Going through the numbers further, it seems that this turnaround may be here to stay, as the company has begun to grow its revenue as well as its EBITDA for the last two years.

The growth in revenue is coming from growing activity for the company's operations, led almost exclusively by growth in the U.S. It's also seeing improved profitability by implementing automation in its operations and finding efficiencies due to its large scale.

If Precision can continue to grow its EBITDA and manage its capital expenditures, it will continue to grow free cash flow to pay down more debt. It's also using those funds to buy back shares, currently with a buyback program to repurchase up to 10% of the shares outstanding.

Looking at its free cash flow from last year, Precision is trading at a trailing free cash flow yield of roughly 38%. This is incredible value, and it makes Precision one of the top opportunities on the TSX.

In addition, Precision's early growth the last few quarters coupled with its reduced capital expenditures mean it will most likely improve its free cash flow, which will make the free cash flow yield even larger.

Even if rig counts do fall in the U.S., Precision is still positioned to continue its turnaround, and given its cheap stock price, it can't get much lower than this.

The entire energy sector is trading at bargain prices after what it has gone through the last few years, but Precision is the best value by far.

Its huge progress to reduce the debt and improve its operations has re-positioned the company well, and it now offers investors incredible value that shouldn't be passed up.

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