



Buy This Energy Stock Today for Massive Upside Tomorrow

Description

The Canadian oil and gas market is in shambles. Oil and gas drilling in Canada has plummeted, and oil and gas companies are struggling, both financially and in terms of their reputation and standing. After years of this scenario building up, and oil and gas stocks getting hit hard, are valuations factoring all this in?

I would argue that valuations are factoring all of this in and then some. [Industry conditions, along with sentiment, have shifted in a big way](#) in the last few years, are staying down in the dumps, and financing for oil and gas companies has all but dried up. In this scenario, we naturally would expect to see companies caught in the crossfire even though they are leaders in the industry.

So what should we do with an oil and gas stock that is trading at or near 52-week lows yet is churning out healthy cash flows, backed by diversified operations and a strong balance sheet?

Pason Systems maintains its competitive advantage

As a leading global provider of specialized data management services for drilling rigs, **Pason Systems Inc.** ([TSX:PSI](#)) has been an essential element of oil and gas operations. It improves efficiencies, detects problems, and provides a clearer picture of oilfields. The company has effectively contributed to reducing the costs and risks inherent in oil and gas drilling, which makes it easy to see how it benefits with any drilling operation.

Drilling in Canada was in a freefall in the third quarter, falling 37% compared to the previous year. Canada represents approximately 14% of the company's total revenue, so while it is significant, the U.S. (representing approximately 70% of total revenue) is the more meaningful area for the company. The problem is that drilling was weak there too, falling 14% compared to the previous year.

On a positive note, Pason [maintains its leadership position](#). The company saw a slight increase in activity in its international segment, increased market share in the U.S., and continued penetration resulting in an increase in revenue per day of its most widely adopted product.

Oil and gas demand is still rising

With the world's usage of oil and gas still rising, and nothing on the horizon to fully replace it any time soon, I can only respond to this sharp reduction in drilling activity with sheer optimism for the oil and gas industry in the medium term.

Supply is trending downward at a shocking pace here in North America, and so it seems only a matter of time before that it catches up to the market, driving up prices as supply cannot meet demand.

Pason is prepared

In the meantime, Pason is adjusting its capital spending in order to maintain positive free cash flows, but the company is going full force ahead with its research & development spending. This will ensure that the company remains at the forefront of drilling site technology, maintaining its market share and leadership position.

The company is also thinking farther ahead, and has bought a majority interest in a U.S.-based software company that provides software for solar and energy storage projects. This positions Pason to participate in the solar energy industry and thus diversifies its risk, as the long-term future of oil and gas is more uncertain.

Foolish bottom line

For all its company-specific strengths, Pason Systems stock has been dead money, and is currently trading slightly below levels of 10 years ago. It is extremely difficult to call the bottom of this disaster that has been the oil and gas industry, but today, it really does feel like the turning point is coming and that the potential upside far exceeds the downside. To top it all off, Pason stock's dividend yield is a very generous 5.29%.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:PSI (Pason Systems Inc.)

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Date

2025/09/19

Date Created

2019/11/07

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