



2 Deep-Value Oil Service Stocks for Big Returns

Description

I have made no secret of the fact that the Canadian oil sector is one of the greatest — if not one of the only — areas of value in stocks today. Up until now, though, I have focused on the producers. Are other areas of the market, such as the drillers and service companies, as compelling in terms of value?

Since there have been so many producers to look at, I have to admit that I have tended to put aside these peripheral companies. Now that the producers may be starting to move, though, it might be a good time to start looking at these other segments of the energy market, such as energy services for cheap names.

Drilling

Companies that are involved in the oil patch have been punished in recent years. A poster child for this sector in Canada is **Precision Drilling** ([TSX:PD](#))([NYSE:PDS](#)). The company operates globally and is one of the largest companies of its kind in Canada.

The last few years have not been kind [to Precision](#). It has been punished severely by the global downturn in energy prices. Its stock price is a shadow of its former self, having fallen from around \$14 a share in 2014 to its current price of just under \$2. Its dividend was also eliminated to preserve capital — a tough pill to swallow for income-focused investors.

That being said, Precision is taking steps to strengthen its balance sheet and financial performance. Recently, the company announced that it aims to eliminate somewhere in the range of \$100 to \$150 million in debt in 2020, some of which is the remaining balance of its 2021 senior notes. This adds to its significant debt-reduction strategy, as it has already paid down \$412 million in debt since 2018.

Precision also aims to continue to buy back its shares. At year-end 2019, Precision had repurchased and canceled 16.5 million shares, or 5.7% of its public float. It has also announced that it is approved to buy back a further 29.2 million shares by August 26, 2020. It currently trades at 0.36 times its book value, making it extremely cheap.

Well services

Companies like **Calfrac Well Services** ([TSX:CFW](#)) have been hit hard by the slowdown in the oil sector. The stock fell from over \$20 a share to the current price of just over \$1 a share over the past several years. This company operates around the globe as a hydraulic fracturing company.

Currently, Calfrac trades at 0.41 times its book value, making it another very cheap stock to buy. It is currently cheap for a reason, with its revenue falling 36% year over year as of its Q3 2019 report. Operating income also fell significantly by 59% over the same period. This stock will likely not turn around until there is a general move in the sector higher, but there could be a sharp [move upwards](#) if that occurs.

The bottom line

The drilling and energy services companies are cheap, much the same as the producers are cheap. However, these companies present even more risk than the producers themselves. Personally, I have not yet decided to step back into these companies and am still concentrating on the producers, but the deep value and potential for high returns are starting to draw my eyes.

If you are looking for a leveraged return on the oil sector, it might be worth taking a look at these companies. The fact that they are so cheap and, in the case of Precision, are making moves to reduce debt and buy back shares is very attractive. You have to realize, though, that these stocks will probably not move significantly until there is a sustained return of investment capital to the energy sector, but these deep-value stocks might have serious gains when they move.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PDS (Precision Drilling Corporation)
2. TSX:CFW (Calfrac Well Services Ltd.)
3. TSX:PD (Precision Drilling Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks

2. Investing

Date

2025/09/26

Date Created

2020/01/21

Author

krisknutson

default watermark

default watermark