Value Investors: 1 Neglected Technology Stock to Own Today

Description

Pason Systems (TSX:PSI) is a leading global provider of specialized data management systems for oil and gas drilling. Pason's solutions, which include data acquisition, wellsite reporting, automation, remote communications, web-based information management, and data analytics, enable collaboration between the rig and back-office operations.

Minimal impact of COVID-9 demonstrating resiliency

Operationally, the company experienced minimal adverse impacts to Pason's business operations and workforce throughout the COVID-19 pandemic in 2020. With the exception of certain international regions that experienced temporary country-wide economic shutdowns, Pason's operations have been open and fully operating.

Through this enormously challenging year, Pason generated $156.6 million in revenue, a 47% reduction from 2019 levels, but managed to grow North American revenue per industry day by 6% from $665 to $706. Furthermore, through strong working capital management and reduced capital expenditures through the year, the company generated $54 million in free cash flow in 2020 and exited the year with $150 million in cash and cash equivalents and no interest-bearing debt.

Broad product offerings

While commodity prices and industry activity have begun to improve through the fourth quarter of 2020 and into 2021, the ongoing impacts of the COVID-19 pandemic remain severe and uncertain for the oil and gas industry. Demand for the company's products and services depends on global capital investment in oil and natural gas, and Pason continues to be well positioned in the company's core business as operators place an increasing emphasis on the use of technology to increase the efficiency and effectiveness of drilling activities.

Throughout 2020, Pason continued to make investments in the development of product offerings in the solar and energy storage market. Revenue generated through the sale of subscription-based licenses

represents 2.1% of the company's overall revenue given the early and developing stage of the business and the industry in which it operates.

Global business model

The company offers instrumentation systems for rent for both land and offshore applications. Pason operates in Australia and several Latin America countries through wholly owned subsidiaries. Through a joint venture in Saudi Arabia, and a branch office in Dubai, Pason offers products and services to the Middle East markets. Pason also continues to explore opportunities in areas where the company has not operated previously.

Diverse customer base

Pason's customers include oil and gas companies, drilling contractors, and other service companies worldwide. Customers for the company's solar and energy storage software primarily include solar and energy storage developers. In 2020, no single customer accounted for more than 10% of the consolidated revenues of the company.

Recently, there has been a significant amount of consolidation amongst operators and contractors, particularly in the North American end market. Continued consolidation amongst Pason's existing and prospective customers will likely result in a smaller number of companies with a heightened focus on technology. Pason is well positioned to make investments in technology development in order to meet the growing demands of these customers.

Also, Pason dedicates significant resources to research and development (R&D) to ensure the company remains competitive and responds rapidly to the changing needs of the energy industry. This focus is likely to serve long-term shareholders well.

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