Enerflex (TSX:EFX) Dips 16%: Why I'm Buying This Energy Stock Today

Description

Enerflex (TSX:EFX) is a Calgary-based company that supplies natural gas compression, oil and gas processing, refrigeration systems, and electric power generation equipment to the oil and natural gas industry. Energy stocks have broadly performed well over the last year, as oil and gas prices have surged. Today, I want to discuss why Enerflex has run into some trouble recently. Is this energy stock still worth buying in late January? Let's jump in.

Why Enerflex was hit hard by volatility yesterday

Shares of Enerflex plunged 16% on January 24. The stock was down another 3.55% in mid-morning trading today. Its shares have dropped 21% in 2022 so far.

Back in 2019, I'd suggested that investors look to snatch up Enerflex stock at a discount. Yesterday, Enerflex and the Houston-based Exterran announced a merger. Pending approval, the business combination is set to be pushed through later in the year. Enerflex stated that this will strengthen its position in natural gas, water, and energy transition markets.

In this transaction, Enerflex will issue 1.021 of its shares for each Exterran share. Enerflex aims to accelerate growth of gross margin from recurring segments on the back of this deal. Moreover, it should be able to realize "at least US$40 million of annual run-rate synergies within 12 to 18 months." Meanwhile, it expects to generate improved free cash flow by 2023.

The announcement of the all-stock deal has taken its toll to open the week. Enerflex is also reeling from disappointing results in the third quarter and year-to-date period in 2021. Investors can expect to see its last batch of 2021 earnings on February 23, 2022.

The oil and gas spaces are still looking strong right now

Oil and gas prices have built strong momentum since the beginning of 2021. Prices have continued to show strength in the face of broader volatility that has emerged to kick off this year. Oil supply has tightened over the past year while demand rebounded to start in 2021.

This should keep investors with their feet planted in the energy sector, especially considering the volatility that has emerged elsewhere. That should spark interest in an energy stock like Enerflex.

Here’s why I’m looking to snatch up Enerflex stock on the dip

In Q3 2021, Enerflex saw revenue drop $33.9 million year over year to $231 million. Meanwhile, adjusted EBITDA dipped $5.4 million to $32.8 million. On the bright side, its backlog climbed $189 million year over year to $375 million. In the year-to-date period, total revenue dipped sharply to $638 million. Moreover, net earnings fell $41.3 million to $14.3 million.

Like its peers, this energy stock has benefited nicely from surging commodity prices. Moreover, management boasted of an improvement in demand for new Engineered Systems and After-Market Services in all regions.

Shares of Enerflex currently possess a favourable price-to-earnings ratio of 12. It last paid out a quarterly dividend of $0.025 per share. That represents a modest 1.5% yield.

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Date

2025/08/18
Date Created
2022/01/25
Author
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