



Oil or Tech? Why Choose When You Can Get Both in a Single Stock?

Description

Oil stocks are up, while [tech stocks](#) are down this year. What happens next year is far from certain. Investors with limited cash to invest need to decide if the energy boom will continue or if tech stocks will stage a resurgence in 2023.

Fortunately, I think you don't need to make this difficult choice. Investors can get the best of both worlds by investing in a software company that is focused on the energy sector. Here's a closer look.

Pason Systems

Calgary-based **Pason Systems** ([TSX:PSI](#)) offers sensors, telecommunications networks, simulation, and optimization for the [oil and gas sector](#). In other words, it's digitizing the process of producing energy.

The company's Electronic Drilling Recorder (EDR) is a network of sensors, software, and displays that convey real-time data to companies trying to drill for natural gas or oil. These systems help the drillers minimize costs and improve efficiency.

As you can imagine, it's been a great year for this drilling software provider. As the price of crude oil and natural gas escalates, producers launch new rigs and seek out new wells for exploration. According to industry data, the U.S. rig count is now approaching pre-pandemic levels.

Pason's revenue surged 59% in the most recent quarter while gross margins are hovering around 50%. The company also generated \$24 million in free cash flow in this quarter.

Pason has no debt and about \$187 million in cash and cash equivalents on its balance sheet. That puts it in a strong position for the near future. Meanwhile, the stock is up just 34.7% year to date, which means it's probably undervalued.

Valuation

Pason Systems stock trades at 16 times earnings per share. This implies a 6.3% dividend yield. However, the company retains more than half of this net income and offers a dividend yield of just 3%.

I expect earnings and dividends to expand over the next few years. If the energy boom continues, demand for Pason's drilling management software will remain robust. However, even if the energy boom has plateaued, Pason has plenty of cash to boost earnings via acquisitions.

Pason also has exposure to the renewable energy sector. Its solar energy business is tiny, generating just \$1.4 million in sales this quarter, but it is expanding rapidly. The solar energy business grew 23% year over year this quarter. This segment of the business puts it in a good position for the long-term energy transition away from fossil fuels.

At the moment, the stock's valuation doesn't capture the potential of this company. I believe growth investors should keep an eye on this opportunity.

Bottom line

Energy and tech stocks have diverged this year. Rising oil and gas prices have siphoned off investment dollars from the tech sector. Investors don't have to pick between these two industries. Drilling software provider Pason Systems is the ideal play for any conservative growth investor in 2023.

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Date

2025/08/14

Date Created

2022/11/20

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