

PASON SYSTEMS INC. (TSX: PSI)

Recommendation: BUY | Price: CAD \$13.02 | Fair Value Range: CAD \$18-\$28 | Upside: 38-115% | Dividend Yield: 4.0%

Market Cap	CAD \$1.01B	EV/EBITDA	6.2x	FCF Yield	6.2%
Enterprise Value	CAD \$946M	EV/Revenue	2.3x	Net Cash	\$77M (zero debt)
Shares Out.	77.8M	EBITDA Margin	37%	ROIC / WACC	19.2% / 7.6%

Investment Thesis

This opportunity originally came to my attention via Stephen Clapham (Behind the Balance Sheet), who highlighted Pason as a core holding and a premier vehicle for capitalising on the enduring energy cycle. Historically, hedge funds have favoured the oil services sector as a "second derivative" trade to play the energy price cycle, capitalising on the sector's high leverage to underlying oil prices. However, the core investment debate surrounding Pason is that it defies this traditional categorisation. Rather than a highly cyclical, second-derivative equipment renter, Pason operates as a capital-light, software-and-data compounder that warrants a premium technology multiple.

Pason is the dominant provider of data management systems for drilling rigs, holding ~65% US and ~85% Canadian market share in Electronic Drilling Recorders. The product costs ~1% of total rig operating costs while a single hour of downtime costs \$10,000-\$50,000, making customers price-insensitive. Revenue per Industry Day has compounded at 6-7% annually for 15 years, and consolidated revenue grew 47% over the past decade despite a 35% decline in the rig count. The company has >80% recurring revenue, ~40% historic EBITDA margins, zero debt, and a monopolistic market position held for over 40 years.

The Multiple Re-Rating Opportunity

The market prices Pason at 6.2x EV/EBITDA, treating it as a cyclical oilfield services company. This represents a 34% discount to its own 5-year average of 9.7x. Oldfield Partners, a London-based specialist value boutique, have publicly argued that Pason's software-like economics deserve a re-rating to 4x EV/Sales (current: 2.3x), producing a base case of CAD \$28 (+115%) and a bull case of CAD \$45+ (+246%). The re-rating thesis does not require the rig count to recover. It requires only that the market recognises what Pason already is: a subscription-style, recurring-revenue data platform with pricing power, network effects, and a 24/7 field service moat. A cyclical rig count recovery would act as a "free option" that supercharges returns through operating leverage on Pason's fixed cost base.

Key Catalysts	Principal Risks
<p>RPID expansion: Record \$1,053/day with cross-sell runway from Mud Analyzer, DAS, and automation products.</p> <p>Completions (IWS): 75% of frac market unautomated. Revenue/IWS Day rising to \$6,131 in Q4. Share gains in declining market.</p> <p>AI/data centre gas demand: 10-15% US gas production increase projected by early 2030s. Policy-resilient structural tailwind.</p> <p>Multiple re-rating: 6.2x vs. 9.7x 5-year average. Oldfield base case CAD \$28 at 4x EV/Sales.</p>	<p>RPID deceleration: Growth slowed from 8-9% to flat by Q4 2025. If RPID stalls, decoupling thesis collapses.</p> <p>Margin compression: Adj. EBITDA margins fell from 46% to 37%. IWS margins negative for 8 quarters.</p> <p>Rig OEM integration: Nabors and H&P building data acquisition into rig control systems.</p> <p>Sector underperformance: PSI has lagged OIH by ~53pp over the trailing year.</p>

Valuation Summary

Framework	Methodology	Implied Value	Upside
Oldfield Partners Base	4x EV/Sales, 3% rev CAGR, buybacks	CAD \$28	+115%
Oldfield Partners Bull	4x EV/Sales, 14% rev CAGR, rig recovery	CAD \$45+	+246%
DCF Base (10-year)	3% growth, 15% FCF margin, 10% WACC	CAD \$11.94	-8%
DCF Bull (10-year)	7% growth, 18% FCF margin, 9% WACC	CAD \$23.42	+80%

Quality Signals

Zero debt, \$77M cash. \$560M+ returned to shareholders over 10 years; share count reduced 8.5% over 6 years. CEO Jon Faber (CFA, CBV, CPA) compensated below peers at ~\$2.3M (78% variable); voluntarily defers bonuses into equity. Cash flow positive through every downturn including an 88% peak-to-trough rig count collapse. Fisher 15-point checklist: 9 PASS, 5 MIXED, 1 UNCERTAIN. Accounting quality above OFS average; key forensic flag is exclusion of \$9.9M cash-settled SBC from Adjusted EBITDA.

A full 26-page research memo with forensic accounting review, earnings call analysis, Fisher checklist, peer comps table, and technical chart analysis is available on request. AI tools assisted in document preparation; all research and analysis is my own.