



## What to Expect When Parex Resources Reports Tomorrow

### Description

Canadian domiciled small-cap oil explorer **Parex Resources** ([TSX:PXT](#)), which is operates predominantly in Colombia, has seen its share price jump a massive 36% for the year-to-date. This is because the market is only now starting to recognize its true potential as well as the value of its assets and operations in Colombia.

### What to expect for fourth quarter and full-year 2013 results

The company is set to report its fourth quarter and full-year 2013 results tomorrow and I expect these results to be particularly impressive. Not only has the market consistently failed to recognize the company's strengths but a range of catalysts have continued to unfold through 2013, creating stronger operational results.

These catalysts include Parex reporting that it has doubled its oil reserves and recorded record production for the month of December 2013, as well as having grown fourth quarter and full year 2013 oil production by over a third in comparison to the equivalent periods for 2012.

The company also recently announced that the Texas Court of Appeals had dismissed the company and its subsidiary Parex Bermuda as defendants in a court case regarding the acquisition of shares in Ramshorn International, all but eliminating any financial risk created by this litigation.

Clearly with such significant production growth, Parex should report increased revenue, and cash flows, while the underlying value of its core assets, its oil reserves, should increase significantly. As a result I would expect to see Parex's share price continue to appreciate in value on the back of these results.

### Additional catalysts will drive a higher share price

But the good news doesn't end there, Parex also has a range of long-term catalysts that will continue to drive its financial performance and share price higher over the longer term. These include most importantly having the price it receives for oil sold benchmarked to Brent.

For some time now Brent has traded at a significant premium to West Texas Intermediate, which at this time is almost 9%. As such Parex can generate a higher margin per barrel of oil produced than its light

oil producing peers operating in Canada like **Lightstream Resources** (TSX:LTS) and **Whitecap Resources** ([TSX:WCP](#)).

For the 9 months ended 30 September 2013, Parex reported an operating netback – a key measure of an oil producer's profitability – of over \$63 per barrel. Lightstream reported a full-year 2013 operating netback of \$50 per barrel and Whitecap's was \$42.62, which are respectively 26% and 47% lower than Parex's operating netback.

Those numbers indicate that neither company is able to generate the same operating margins as Parex. Those margins have a direct impact on its ability to grow cash flow, which is important for funding dividend payments and capital expenditure.

More importantly a higher netback (driven by Brent pricing) allows Parex to fully fund its capital program from cash flow. That reduces the need to fund capital expenditures through debt and maintain the strength of its balance sheet.

### **Remains attractively priced**

Despite seeing its share price gain strongly since the start of 2014, Parex still remains attractively priced on the basis of two key measures used to determine whether oil producers are over or undervalued. It has an enterprise value that is a mere three times EBITDA and \$50,000 per barrel of oil produced.

These are significantly lower than many of its Canadian based peers as you can see from the chart.

[PXT Val Ratios 120314](#)

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With such low ratios, particularly in comparison to its Canadian based peers and the industry averages, it is clear there is significant space for Parex's share price to appreciate before the company is fairly valued.

### **Foolish takeaway**

Oil exploration and production is a fickle business, and investing in junior and intermediate oil producers can be particularly risky. But it is clear the market is still heavily discounting Parex despite its share price popping 36% for the year-to-date.

With the company set to report some strong operational results coupled with such low valuation ratios, its share price can only continue to appreciate.

## **CATEGORY**

1. Investing

## TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

### Category

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