3 Reasons Why Parex Resources Could Hit $15 Per Share

Description

Canadian domiciled and listed **Parex Resources** (TSX: PXT), a junior oil producer operating in Colombia, is fast shaping up as one of the most exciting plays for investors seeking high growth emerging markets opportunities. Already the company's share price has shot up a staggering 114% over the last year and there are a number of catalysts indicating it is still undervalued and will continue to climb in value.

Management has also indicated they believe the market is failing to recognize Parex's true value. Accordingly, a share buyback was initiated in March 2014, which is scheduled to end either in March 2015 or when just over 10 million common shares have been acquired, representing around 10% of the total float. This will certainly act in concert with the catalysts below to drive Parex's share price higher.

1. Significant ongoing growth in oil reserves and production
Parex has grown both its oil reserves and production at a staggering rate since commencing commercial viable production in 2010. From 2010 until 31 December 2013 Parex's oil reserves had a compound annual growth rate of 55% and oil production a whopping 168%. Furthermore, for the full-year ending 2013 Parex's production grew a staggering 40% in comparison to 2013.

It is expected production will continue to expand, with 2014 production estimated to grow by between 15% and 17% in comparison to 2013. As such further boosting revenue and more importantly cash flow. Such a strong historical operational performance bodes well for the company's future success.

2. High quality oil assets in known producing oil basins
A key strength for Parex is the high quality oil assets it holds in two of Colombia's best known oil producing basins, the Llanos and Middle Magdalena basins in central Eastern Colombia. Both have a long history of oil production, with the Llanos basin containing the country's largest producing field the Rubiales field.

Since commencing operations in the Llanos basin in 2009, Parex has enjoyed considerable exploration and development drilling success. In 2013 alone it achieved a drilling success rate of 83%, which was higher than **Pacific Rubiales'** (TSX: PRE) 68% for the same period.

But now management has signaled Parex will embark on an aggressive acquisition program in Colombia, targeting oil plays in the Llanos basin aimed at doubling oil production by 2019. As part of this program, management has targeted annual production of 20%.

3. Parex's crude continues to be price indexed to Brent
Another key appealing aspect of the company is its oil sales are price indexed to Brent crude, which continues to trade at a considerable discount to West Texas Intermediate. At this time Brent is trading at a 3.5% premium to West Texas Intermediate.

Typically, Parex's crude trades at a 3% to 4% discount to the price of Brent, but this still gives it a superior price per barrel compared to light oil producers located in Canada. This includes company's like **Lightstream Resources** (TSX: LTS) and **Surge Energy** (TSX: SGY), which predominantly produce light crude called Edmonton Par. The price of Edmonton Par at the start of April 2014 was trading at an 8% discount to West Texas Intermediate, and it is expected this differential will widen as U.S. light crude production continues to grow.

As a result, Parex can generate a higher netback per barrel — an important measure of the profitability of an oil company's production — than many of its peers. For the full year 2013 Parex reported a netback per barrel $62.70, which was higher than Pacific Rubiales $60.77, Lightstream's $50, and Surge's $41.77 per barrel, which highlights the higher profitability of Parex's production.

Foolish bottom line
Parex has been an amazing growth story and despite the substantial gain in its share price over the last year, there are still further opportunities for sustained growth. There are a range of catalysts that appear set to grow Parex's share price even higher.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FEC (Frontera Energy Corporation)
2. TSX:SGY (Surge Energy Inc.)

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