



Go Bargain Hunting in the Patch with Crescent Point Energy Corp., Lightstream Resources Ltd. and Parex Resources Inc.

Description

“Buy when there’s blood in the streets, even if the blood is your own.” – Baron Rothschild

The metaphorical blood is gushing from oil stocks with the energy sector experiencing a frenzied sell-off as crude continues to plummet. Both West Texas Intermediate and Brent at their lowest prices since early 2010.

This decline has the **S&P TSX Capped Energy Index** down a massive 13% for the quarter thus far, with some big names in the patch seeing their share prices bounce around new 52-week lows. But many of those companies remain profitable in the current operating environment and are now trading at significant discounts to the intrinsic value of their underlying businesses.

This I believe has created a once in a lifetime opportunity for investors to acquire quality profitable oil companies at a deep discount to their fair value. Let’s take a closer look at 3 companies which I believe offer investors considerable long-term value at this time.

Crescent Point Energy Corp.

Weaker crude prices has seen the usual chorus of naysayers emerge claiming **Crescent Point Energy Corp.’s** (TSX: CPG) (NYSE: CPG) dividend with its monster 8% yield is unsustainable. But with its share price now down a whopping 31% over the last 3 months it appears so attractively priced that the concerns regarding its dividend stability, I believe, should be a secondary consideration.

Just consider the company’s portfolio of high quality, light and medium oil assets. The company’s reserves amount to more than 600 million barrels of crude. Of these assets, only around 40% are developed and producing, giving Crescent Point a solid drilling inventory to grow production, without having to continue acquiring new assets. For growth to occur, acquisitions are no longer required.

Finally, it has a rock-solid balance sheet with net-debt a mere 25% of equity and 1.4 times operating cash flow. This gives Crescent Point considerable operational flexibility, allowing it to take on additional debt as and when required by operating conditions.

Lightstream Resources Ltd.

Intermediate oil producer **Lightstream Resources Ltd.** (TSX: LTS) has seen its share price crushed over the last 3 months – the stock is down 54%. This despite the company successfully making over its balance sheet and continuing to report one of the best operating margins or netbacks in the patch.

By the end of Q3 2014 net-debt had been reduced to 73% of equity and 2.4 times operating cash flow. While its netback of \$48.67 per barrel, is among the highest in the patch, highlighting the quality of its oil assets and their profitability. It also emphasizes there is sufficient fat in Lightstream's operating margins to absorb a sustained decline in crude prices before operational profitability and cash flow are impacted.

But even more appealing is it now appears extremely cheap with an enterprise-value or **EV** of a mere 4 times EBITDA and 15 times its oil reserves.

Even better is the fact that insiders are snapping up shares. In recent weeks, insiders have acquired 526,797 – a fine indication that they see solid long-term prospects for Lightstream.

Parex Resources Inc.

Canadian domiciled **Parex Resources Inc.** ([TSX: PXT](#)) continues to perform strongly despite the crude price crunch. But like its peers, its share price has been hit hard, with it down a massive 40% in the last 3 months. This now leaves it trading with some very attractive valuation multiples including an EV of a mere 3 times EBITDA.

More impressively, even after completing its acquisition of **Verano Energy** earlier this year, which significantly boosted oil reserves and production, Parex still has a rock-solid balance sheet, with debt a mere 5% of equity and around 1 times operating cash flow.

But more importantly Parex continues to take advantage of premium Brent pricing and generate a solid netback of \$53.39 per barrel of crude produced. This sees it well positioned to continue internal funding of its exploration and development program while growing production and cash flow in a difficult operating environment.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:PXT (PAREX RESOURCES INC)
3. TSX:VRN (Veren Inc.)

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