Parex Resources Inc.: One Solid Small-Cap Oil Stock to Bet on the Rebound in Crude

Description

The oil rout and ongoing uncertainty regarding the outlook for crude is hitting energy companies and their share prices hard. While there is certainly pessimism surrounding the outlook for energy stocks, there are now some attractively priced investment opportunities among them.

Now what?

The sharp sell-off of energy stocks has left a number of smaller pure upstream—or oil exploration and production—stocks attractively priced. One that has garnered my attention for some time and continues to stand out as an attractive play on a rebound in crude is Colombian-based **Parex Resources Inc.** (TSX:PXT).

Since the oil rout commenced six months ago, its share price has plunged by 22%, leaving it attractively priced, with an enterprise value of five times its projected 2015 EBITDA and 15 times its oil reserves.

The company has built an impressive portfolio of quality oil assets located predominantly in Colombia's prolific Llanos basin. As at the end of 2014, Parex's oil reserves had grown by 114% year over year to be 68 million barrels, with 97% weighted to light and medium crude.

Parex continues to retain a clean balance sheet with an extremely low level of leverage. As of the end of 2014 net debt was significantly lower than its operating cash flow. And compared to its North American peers it possesses a financial edge, which is its ability to access Brent oil prices.

Brent the international oil benchmark trades at a considerable premium to the North American oil benchmark West Texas Intermediate (WTI). It has done so for some time, and since the oil rout began, this premium has widened significantly, with Brent now trading at an 11% premium to WTI. This allows Parex to generate more revenue for every barrel of crude that it produces than North American upstream producers that can only access WTI pricing.

Parex also continues to maintain a low-cost operating structure that can be attributed to the lower costs associated with operating in Colombia, which allow it to generate a solid margin, or netback, for every barrel of oil it produces. This low-cost operating structure is further enhanced by the depreciation of the Colombian peso, giving Parex another edge that bodes well for its ability to weather the current harsh operating environment.

As a result, this low-cost operating structure, in conjunction with the additional revenue generated by its ability to access Brent pricing, Parex can continue to fund its 2015 capital program solely from operating cash flow. This leaves its pristine balance sheet untouched, despite sharply lower oil prices, and gives it considerable financial flexibility that leaves it well positioned to weather markedly lower crude prices for a sustained period.

So what?

Parex has a number of factors working in its favour that make it a superior investment when compared to the majority of North American upstream oil companies. For these reasons, I believe it is one of the best plays on a rebound in crude.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PXT (PAREX RESOURCES INC)

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