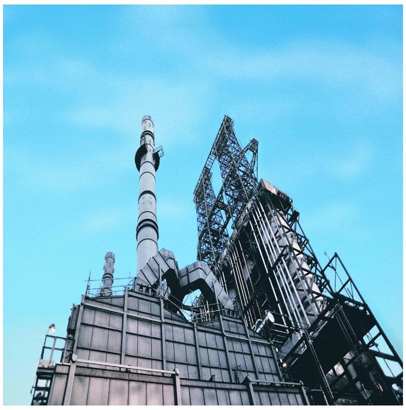

# Parex Resources Inc. Is the Oil Company You've Been Searching for

## Description

If you want to profit from rising oil, **Parex Resources Inc.** (TSX:PXT) is for you.

With a market cap of $2.4 billion, Parex is often overlooked. This has created an opportunity for investors.

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**Why is Parex so attractive?**

The company holds 82 mmboe in proven reserves in Colombia. These reserves are 98% weighted to oil–an incredible benefit considering oil typically comes with higher profit margins and a significantly more attractive macroeconomic backdrop.

Many other "oil" companies have 10-30% natural gas output. Not Parex; it's as close to a play on oil prices as you can get.

Its properties are widely considered to be high quality. Over the past seven years, reserves have grown at an annual rate of 46%. Actual production has nearly doubled since 2012. Most importantly, Parex will be able to continue growing its production and reserves for years to come.

Currently, most smaller oil exploration companies have been forced to significantly cut their capital expenditure budgets. Some have even filed for bankruptcy or were sold to better-financed competitors at fire-sale prices.

Parex doesn't face this pervasive issue. Currently, it has no debt and an undrawn credit facility of $200 million. That's about as safe as it gets considering the current operating environment. This financial flexibility has allowed Parex to take a long-term approach, focusing its capital expenditures on high-return projects.

Parex is just now entering its prime given its opportunities to scoop up attractive properties at historically low prices, abetted by its low debt levels and ample access to credit markets. Its home market of Columbia is clearly ripe with quality assets worth far less than their true value.

**Massive upside potential**

With no debt, Parex will see its profits rise and fall neatly with changes in crude prices. Even if oil averages US$40 per barrel the company should generate cash earnings of US$7 a barrel. If crude prices rise to US$50, profitability more than doubles to US$15 a barrel. At US$60, profitability triples. You get the idea.

Parex looks like the best of both worlds. The company can maintain profitability despite swoons in energy prices, and if conditions deteriorate immensely, they have the firepower to buy up competitors at big discounts. Over the long term, shares appear likely to outpace the competition.

Even if Parex doesn't make a game-changing acquisition, its ongoing investment in exploration and developing its assets will cause its oil production and reserves to grow, leaving it well positioned to take full advantage of oil prices when they rally.

**CATEGORY**

1. Energy Stocks
2. Investing

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1. TSX:PXT (PAREX RESOURCES INC)

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