



Parex Resources Inc.: The Winner You Haven't Heard of

Description

Parex Resources Inc. ([TSX:PXT](#)) is a Canadian oil exploration and development company operating in Colombia. The company's stock is currently trading about 20% below its 52-week high and has significant upside given its unique capital structure and strong cash flow-generation capabilities. Parex's stock is currently up approximately 70% since the beginning of 2016, but it has substantial room to increase further in 2017 as the company continues to ramp up production.

Company overview

Parex has drilled a number of wells in Colombia that are not yet at full capacity. Parex's wells are located in two areas of Colombia: the Llanos Basin and Magdalena Basin. In the Magdalena Basin, the company has drilled five appraisal wells during the last quarter with results that were somewhat disappointing.

Initial surface drilling results aside, the company has significant production growth prospects in the coming year as the company expands existing wells across all portfolio properties.

Given Parex's strong fundamentals (which I'll get to next in more detail), the exploration and development company will likely be pursuing additional deals in Colombia to capitalize on its free cash flow from operations. The fact that Parex doesn't have any debt means finding and funding deals, even those larger than the company's current market capitalization, may be possible.

Given the current economic environment and the fact that the commodity price of oil remains depressed, now may be the right time for Parex to "go shopping."

Company fundamentals

For any investor making long-term investment decisions based on conservative principles of strong cash flow and sustainable growth, Parex is a company that ticks all the boxes.

The oil exploration and development company *has no debt*. This is the one key factor that can possibly contribute the most to the company's future growth due to the previously mentioned fact that with oil

prices trading at depressed levels, a number of acquisitions may be possible (and very profitable) for Parex.

Acquisitions aside, the oil company has seen cash flows grow at an impressive rate. Cash flows are expected to outpace analyst projections in 2017. Using current analyst projections, the company's stock is now trading at about four times next year's cash flow.

Parex is not immune to the issues low oil prices have caused oil exploration and development companies across the board. The company is currently operating at a small loss; however, given the fact that Parex is currently using cash flow from operations to fund an extensive capital-investment program, rising oil prices should make this company a profit machine in the short to medium term.

Stay Foolish, my friends.

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