Is it Time to Buy These 2 Well-Run Energy Stocks?

Description

Volatile oil prices make energy stocks, including **Parex Resources Inc.** (TSX:PXT) and **Spartan Energy Corp.** (TSX:SPE), volatile, too. Is it a good time to buy some shares?

Parex Resources

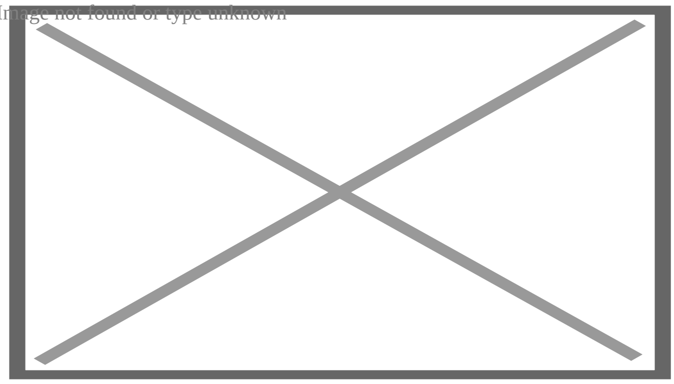
Parex Resources is an oil and gas exploration company that operates in Colombia in South America. As of 2016 it had wells in various stages, including seven exploration wells, four appraisal wells, and six development wells.

Exploration drilling is performed to find prospects for oil and gas. Appraisal drilling is done to determine the quality and quantity of newly found oil and gas wells. Development drilling is done to harvest oil and gas.

This year, Parex Resources anticipates doubling its development wells to 12, while keeping the funnel full. The company expects to have 14 exploration prospects and 15-20 appraisal wells. These projects will require capital spending of US$200-225 million — an increase of about 90% from last year.

In turn, Parex Resources expects production to grow 14-21% from 29,715 barrels of oil equivalent per day (boe/d) in 2016 to 34,000-36,000 boe/d this year.

Assuming Brent oil prices of US$50 per barrel, Parex Resources projects it can generate funds from operations of US$211-223 million, which would largely, if not fully, cover the costs needed for its capital spending.



Parex Resources started generating free cash flow (FCF) in 2015 and grew its FCF per share by 14.5% in 2016. Adding that management has maintained a strong balance sheet with little debt, the company can very well continue the trend of growing its FCF per share.

Thirteen analysts at **Thomson Reuters** have a mean 12-month price target of $16.90 per share on the stock, which implies upside potential of about 2.4% based on the recent quotation of $16.50 per share.

Spartan Energy

Spartan Energy is a small-cap oil and gas exploration company, which produces Mississippian light oil in southeast Saskatchewan and Viking light oil in another part of Saskatchewan.

The company's president and chief executive officer is Richard McHardy. He has been a founder of several public oil and gas companies and has extensive experience in leadership roles in the industry.

This year, Spartan forecasts to produce 21,080 boe/d, which would be an annual production per-share growth of 11%. The production mix would be roughly 92% oil and liquids and 8% natural gas. Assuming oil prices of US$50 per barrel, Spartan estimates to generate excess cash flow of $42 million after accounting for capital spending of $145 million.

Thirteen analysts at Reuters have a mean 12-month price target of $4.04 per share on the stock, which implies upside potential of about 85% based on the recent quotation of $2.18 per share.

Investor takeaway

Parex Resources and Spartan Energy will do fine with oil prices of US$50 per barrel and better if prices head higher. That said, since Spartan Energy has pulled back nearly 35% year-to-date, it is better valued and trading at a lower price-to-cash-flow ratio. Spartan Energy is probably a better buy for the next few years. Still, remember not to bet the farm on either stock because their profits are more or less reliant on volatile commodity prices.

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