Forget About Energy Stocks Operating in Canada: Profit from Higher Crude With This Oil Stock

Description

Oil's latest rally sees the international benchmark Brent hovering at around US$70 per barrel, and there are signs that it could move higher in coming weeks because of an upswing in the global economy and supply-side risks. When coupled with Brent's US$4 premium over the North American benchmark, West Texas Intermediate (WTI) this bodes well for those drillers capable of obtaining Brent pricing for their oil sales.

One such energy company is **Parex Resources Inc.** (TSX:PXT), which has a history of successfully building its core assets and production in the South American nation of Colombia.

Now what?

While many investors are deterred by Parex' association with Colombia, a country once rife with civil conflict, crime, and terrorism, that country has seen drastic security improvement in recent years. This includes the peace with FARC, the largest leftist guerilla army, in 2016 and their subsequent demobilization. Thus, much of the geopolitical risk associated with operating in the Latin American nation has been eliminated, boosting its growth prospects.

Notably, Parex has an impressive history of unlocking value for investors while continuing to build its oil reserves and production. It started 2017 with reserves of 112 million barrels of crude, which was more than 10 times greater than its reserves at the end of 2011. They are weighted predominantly towards Colombian heavy crude, which receives Brent pricing. Those reserves were valued at around $2.8 billion, which comes to almost $18 per share. While that's just over $0.37 less than Parex' last traded price, both the volume of reserves and their value will rise sharply when revised.

Brent is now hovering at around US$70 per barrel, which is significantly higher than the US$57 per barrel used for that appraisal, and there are signs that Brent will continue to appreciate.

Parex also enjoyed considerable success with its drilling program in 2017, completing 23 wells, of which 21 produced oil, which, along with high secondary recovery rates, should give its reserves a significant boost.

This has also contributed to significant production, which in the current operating environment will give earnings a solid lift. Fourth quarter 2017 oil output grew to 39,000 barrels daily, which is a quarter over quarter increase. For 2018, Parex estimates that oil production will average between 41,000 to 43,000 barrels daily, which at the upper end represents a 25% increase over 2017.

Based on a Brent assumption of US$55 per barrel, Parex has allocated US$260 million to US$290 million to maintenance, development, and exploration expenditures. This includes spending on drilling 14 gross development wells, boosting transportation capacity, and drilling up to 30 exploration wells.

If Brent remains at around US$70 or rises higher, it's highly likely that this budget will increase, boosting likelihood of more oil discoveries during 2018, higher production, and even more significant reserves growth. At US$60, Brent Parex estimates that it will earn cash netbacks of US$24 for every barrel sold, thereby highlighting the driller's profitability.

So what?

Parex is shaping up to be the one of the best bets on firmer oil, with the company poised to soar even higher as Brent firms up over the course of 2018 and its production grows. It's therefore an ideal time for investors to add this high-quality intermediate driller.

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