Forget North American Oil Stocks: Buy This Driller Operating in Colombia Instead

Description

Unsurprisingly, it was Canadian upstream oil and gas producers that led the charge into once high-risk markets in Latin America, such as Colombia and Argentina. Since oil's latest rally upstream energy stocks have started to garner considerable attention. One that stands out is **Parex Resources Inc.** (TSX:PXT). Despite the international benchmark Brent rallying by 5% since the start of 2018, Parex has seen its stock drop by just over 2%. This has created an opportunity for investors to acquire a high-quality driller with a long growth runway ahead of it.

Now what?

Among Parex's key strengths is its impressive portfolio of oil assets located in Colombia. Most of its acreage is in the Andean nation's prolific Llanos basin located in the east of the Andean nation. That basin has a long-proven production history, while the government, because of the Colombian economy's reliance on crude, has taken a favourable view of the oil industry, making it a low-risk jurisdiction in which to operate.

Those assets have been assessed to hold oil reserves of 162 million barrels, which are weighted to light and medium crude. Parex has a proven history of growing those reserves with them, expanding at a 43% compound annual growth rate (CAGR) since 2013. Those reserves were valued at $23 per share using an average Brent price of US$65.50 per barrel, which appears realistic given the latest gains made by oil. That represents a 27% premium to Parex's latest price, indicating the upside on offer for investors.

The driller has also steadily grown its production, having grown by 20% year over year in 2017 to 35,5412 barrels daily. The majority of Parex's production is crude, which makes up 99% of its total output. The company estimates that 2018 production will expand by up to 20% compared to 2017, which will allow it to take full advantage of higher oil prices.

What makes Parex particularly appealing is the profitability of its operations. For 2017, it reported a netback of US$29.69 per barrel produced, which was 64% greater than 2016. This was higher than many of its peers operating in Canada, such as **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), which reported a netback of US$15, and **Crescent Point Energy Corp.'s** (TSX:CPG)(NYSE:CPG) US$26.85.

Another attractive attribute is Parex's robust balance sheet. The company has no debt and ended 2017 with working capital in excess of US$163 million, endowing the driller with considerable financial flexibility. That means it can easily dial up capital spending as oil prices rise to boost drilling as well as development activities, which would further expand reserves and production.

Parex also has an enviable history of exploration success. During 2017, it made several oil discoveries, the last being at the De Mares block in the Magdalena basin, where, in partnership with Colombian state-controlled energy major **Ecopetrol SA**, it discovered oil. The driller's plans to invest up to US$200 million to drill up to 36 wells during 2018 makes it highly likely that Parex will make further oil discoveries over the course of the year. The Colombian hydrocarbon regulator's decision to allow fracking has further bolstered its exploration upside because of its presence in the Magdalena basin, where it is focused on light, tight oil exploration.

So what?

Parex has been an attractive play on higher crude for some time. With Brent trading at close to US$70 per barrel, now is the time to buy the company. This is particularly the case when it is considered that Parex is trading at a discount to the value of its oil reserves, possesses high-quality assets, has a rock-solid balance sheet, and considerable exploration upside.

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