



## Is This Driller Canada's Top Oil Stock?

### Description

The latest oil rally now sees the North American benchmark West Texas Intermediate (WTI) trading at over US\$70 a barrel for the first time since late 2014. There is every sign that prices could move higher in coming weeks because of potential supply shocks, declining inventories, and rising geopolitical tensions in the Middle East. A crucial event that would give oil its next leg up is the likelihood of Trump exiting the Iran [nuclear deal](#) and refusing to waive U.S. sanctions against Teheran.

This has been a boon for beaten-down energy stocks. Among the best ways to play higher oil is upstream oil producer **Parex Resources Inc.** ([TSX:PXT](#)).

### Now what?

Parex is an intermediate oil producer focused on the Latin American nation of Colombia, where it has 1.6 million acres in the Andean nation's prolific Llanos and Magdalena Basins. Those properties give it 162 million barrels of oil reserves with a production life of over 11 years.

More importantly, Parex is debt free, and it is this attribute that — along with its quality oil assets — allowed it to weather the prolonged oil slump in good shape and position itself to take full advantage of higher oil.

Since 2013, the driller has grown its oil reserves and production at a healthy clip. Its reserves by the end of 2017 had expanded at a compound annual growth rate (CAGR) of 43% and production by 17%. This trend will continue for the foreseeable future, positioning Parex to take full advantage of higher oil.

Oil output for 2018 is forecast to grow by 18% year over year to 42,000 barrels, and Parex is planning to drill up to 18 exploration and 32 development wells over the course of the year. The driller is targeting oil production of 50,000 barrels daily by 2019. That will support the growth of its oil reserves and production, particularly when its long history of drilling success and the tremendous exploration upside of its acreage is considered.

Parex's plans to expand its operations will be funded by cash flow rather than debt, leaving its pristine balance sheet intact.

A crucial advantage that Parex has over its peers operating in North America is that it can access international Brent pricing. At the time of writing, Brent is trading at an almost US\$6 per barrel premium to WTI, which will give Parex's earnings a healthy boost and is part of the reason for its ability to report a solid netback per barrel produced.

Netbacks are an important indicator of profitability for the operations of an oil producer. For 2017, Parex reporting a cash netback of US\$21.57 per barrel produced when Brent averaged US\$54.75 for the year. Now that Brent has broken through the US\$75-per-barrel mark that netback will climb substantially. Parex's own calculations show a netback of US\$32 per barrel should Brent average US\$75 during 2018. While it is unlikely that oil will [dip significantly](#) in coming months, it is important to note that Parex generates sufficient cash flow to maintain production when Brent is at US\$30 a barrel.

### So What?

Parex remains a top stock for playing higher crude, and the likelihood that oil will rally further over coming weeks, even after gaining a hefty 25% over the last three months. The driller is poised to unlock significant value for investors from its high-quality acreage, which — along with growing production and higher oil prices — should give earnings a solid bump.

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