



## 2 Top Oil Stocks to Own Regardless of Crude's Latest Weakness

### Description

Saudi Arabia's and Russia's [latest statements](#) about ramping up oil production and potentially unwinding the production deal established in November 2016 has sent jitters through global energy markets. The North American benchmark West Texas Intermediate (WTI) pulled back sharply over the last week, while the international benchmark Brent dropped below US\$80 a barrel on the news. That shouldn't deter investors from investing in oil stocks, particularly those with high-quality operations and the ability to take advantage of higher Brent pricing.

Two companies that stand out for these reasons and more are **Gran Tierra Energy Inc.** ([TSX:GTE](#))(NYSE:GTE) and **Parex Resources Inc.** ([TSX:PXT](#)), which have seen their value fall by 2% and 1%, respectively, over the last week. That provides a handy entry point for investors seeking to position their portfolios to take advantage of oil's next rally.

### Now what?

Gran Tierra operates in Colombia, where — through the transformative US\$525 million acquisition of **PetroLatina Energy Ltd.** in 2016 — it became the premier landholder in that country's southern Putumayo Basin. Its oil acreage gives it reserves of 137 million barrels independently valued at US\$2.5 billion, which is US\$1 billion greater than the company's enterprise value.

The driller reported some solid first-quarter 2018 results, including record quarterly production in Colombia of 35,075 barrels daily, which was a healthy 23% higher than a year earlier. Gran Tierra's drilling program continues to demonstrate considerable success; the company brought five wells online during the quarter that should boost its oil output further.

Impressively, Gran Tierra has considerable financial flexibility provided by its solid balance sheet. It finished the first quarter with significant liquidity totaling US\$460 million comprised of an undrawn US\$300 million credit facility and US\$160 million in cash.

Because it operates outside North America, Gran Tierra can access Brent pricing, which gives it a considerable advantage over its North American peers, because Brent is trading at an almost US\$9-per-barrel premium over WTI. There is every sign that Brent will continue to trade at a significant

premium because of growing U.S. shale production, which will suppress the price for WTI and Middle East supply constraints that are bolstering the price of Brent.

Parex, like Gran Tierra, operates in Colombia; it's primarily focused on the Andean nation's prolific Llanos Basin. It has 162 million barrels of oil reserves and has grown its oil production at a remarkable compound annual growth rate of 17% since 2013. For 2018, Parex has projected that its oil production will grow by an impressive 21% compared to a year earlier. That is an important attribute in an operating environment where crude has firmed significantly since the end of 2017, which should give earnings a solid bump.

Parex is able to consistently generate high operating margins, reporting a netback of US\$39 per barrel produced for the first quarter 2018.

What makes Parex stand out is its rock-solid balance sheet. It finished the first quarter with US\$206 million of working capital, no debt, and an undrawn US\$100 million credit facility. That endows it with considerable financial flexibility, allowing it to ramp-up operations in response to higher oil or weather lower prices if oil falls further because of OPEC's latest ruminations.

Like Gran Tierra, Parex can access international Brent pricing, which gives it a distinct advantage over its North American peers.

### **So what?**

Both drillers are among the best upstream oil producers for those investors seeking to boost their exposure to crude. Their solid balance sheets, considerable liquidity, and high-quality assets mean there is a long growth runway ahead of them, which should cause their stock to soar once [oil rebounds](#).

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSEMKT:GTE (Gran Tierra Energy Inc.)
2. TSX:GTE (Gran Tierra Energy Inc.)
3. TSX:PXT (PAREX RESOURCES INC)

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**Date**

2025/08/20

**Date Created**

2018/05/30

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