# Red Sea Woes Could Put Oil Stocks Back in the Black

## Description

As oil jitters continue to roil markets, geopolitical unease and supply issues continue to dog investors in the black gold. Recent news of a disrupted supply route through the Red Sea spells good news for oil stocks but bad news for pretty much everything else, from transport to every company that relies on distribution of goods by vehicle.



Will oil prices climb on news of a bottleneck in Saudi Arabian crude? Almost certainly. Keep reading to see a two-stock play involving a pair of very strong Canadian oil producers that could surge in coming months.

**Red Sea, black gold**

Oil shipments from Saudi Arabia using routes through the Red Sea will be temporarily halted after a disturbance involving two crude carriers on Wednesday. According to **Thomson Reuters Corp.**, Saudi Arabia's energy ministry stated that shipments via the Bab-El-Maneb strait connecting the Gulf to the Red Sea will be temporarily shut down.

To put this latest development in perspective, the closure of the Red Sea will slow Saudi Arabia's delivery of oil to a couple of its biggest strategic markets: Europe and North America. This is likely to see a rise in oil prices, as demand continues to put pressure on already strangulated supplies.

**Invest in Colombian crude?**

**Parex Resources Inc.** (TSX:PXT) is a major Canadian-based oil and natural gas explorer, developer, producer, and marketer. Its facilities are located in Colombia, and it's sitting on reserves of over 162 million barrels of oil equivalent, either proven or probable.

Discounted by 37% compared to its future cash flow value, Parex Resources looks superb today. Low multiples, such as its P/E of 13.7 times earnings and PEG of 0.7 times growth. Coupled with a 20.5% expected annual growth in earnings, this stock is looking red hot.

A high-ish P/B of 2.7 times book suggests either a low level of inventory, which would be unusual for an oil producer, or overvaluation. Looking at its balance sheet, we can see that while Parex Resources is debt free, it does indeed have a high level of physical assets, as you would expect. This suggests that the stock may actually be overvalued in comparison to its book price.

### Meanwhile, this other oil stock has masses of upside

Alternatively, go for an acquisition play such as **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE). Its recent merger with **Raging River Exploration Inc.** has made it a stock to be reckoned with. It's looking great today on both value and growth, making for a perfect accompaniment to Parex Resources if you wanted to invest in both stocks for an oil power play.

Currently discounted by 30% compared to its future cash flow value, Baytex Energy is a bargain. Its P/E of 76 times earnings reflects its past performance, notwithstanding last year's rally. Although perhaps investors should be looking to the future of this stock instead: Baytex Energy is expecting a 72% annual growth in earnings, which makes it a strong buy. This is made all the stronger by its other value multiples: a PEG ratio of 1.1 times growth and P/B of 0.5 times book.

### The bottom line

While rising oil prices are likely to see a surge in affected stocks, the underlying closure of the Red Sea may trigger other suppliers to increase their output. This may mitigate pre-existing bottlenecks, including a decline in U.S. crude inventories, that have been contrasted with a rising demand for gasoline. In short, oil investors should be aware of an opportunity for upside that will likely last until global supplies are increased by any significant amount.



### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:PXT (PAREX RESOURCES INC)

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