Which Company Has the Highest Expected Growth Rate on the TSX?

Description

When screening for potential investments, I have a particular interest in companies with high growth rates. What do I look for? For starters, I filter companies with a market capitalization of greater than $500 million. This weeds out most of the high-risk small caps that tend to have greater price fluctuations.

Second, I rely on analysts' estimates, as they're a bit less biased than those of the company itself. Finally, I'm interested in stocks that provide a good value.

With those criteria in mind, what company has the highest expected growth rate on the TSX? That would be **Parex Resources Inc.** (TSX:PXT). Does it provide good value? Let's take a look.

Historical performance

Parex is engaged in crude oil exploration, development and production in Colombia. On the back of increased production and higher oil prices, Parex has been on a tear.

Year to date, the company's share price has returned 20%, but it gets better. Over the past year, it has gained an impressive 44.5%. It's two-year and five-year performances are equally as impressive returning 71% and 328%, respectively.

This type of performance, especially over a period where oil prices were depressed, is very impressive.

Growth expectations

Analysts expect the company to post earnings per share (EPS) of $2.40 in 2018 and $2.84 in 2019. This is a compound annual growth rate of 93%!

The company has an impressive drilling program. In 2017, the company grew oil reserves by 44.7% to 162 million barrels of oil equivalents (MMBOE). The company is not slowing down. It expects to increase capital expenditures (CAPEX) and the number of wells drilled by over 30% this year. In 2018, it expects to grow oil production by 22% to 43,000 barrels per day.

The company is highly profitable and has no debt. Yes, you read that correctly; this is an oil producer with positive working capital and no long-term debt on its balance sheet. It can fund its capital expenditures program with existing cash flows.

To give you an idea of the company's potential, Parex is cash flow positive at $30 per barrel. Today's price is north of $70 per barrel and is trending upwards. Let that sink in for a moment.

Valuation

Parex is currently trading at a cheap valuation of 14.4 times earnings. However, as we're interested in the company because of its growth profile, let's take a look at future metrics. On a forward basis, the company is trading at an insanely cheap 7.88 times earnings.

Likewise, Parex's P/E to growth (PEG) ratio is 0.71. What does this mean? The company's share price is not keeping up with expected earnings. In other words, it is undervalued. A company trading at a PEG ratio of 1 would be considered to be trading at fair value.

What do analysts think? There are 11 analysts that follow the company and its unanimous, the company is a buy. Analysts have a one-year price target of $32.73. This implies 47% upside from today's share price of $22.31!

At current oil prices, Parex is a cash machine. It also provides a considerable level of safety given its current capital structure. Parex is a great pick if you're looking for energy exposure.

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