



This Canadian Value Play Is Having a 30% Off Sale: Buy Now!

Description

The recent market pull back in global markets is an interesting one for a few reasons. Some may believe that this is only the beginning of a much longer and more painful retreat in equity prices given inflated valuations and plenty of room on the downside. Others point to otherwise excellent companies that have sold off of late, providing value investors with a few really good options in a sea of otherwise expensive names.

I believe **Parex Resources Inc.** ([TSX:PXT](#)) is one of these companies, and I'll be highlighting this oil and gas play for the first time in a while (my [initial piece](#) was in early 2017), given the incredible value I believe exists here following the recent market rout.

Fundamentals

Parex is a company I like mainly from the fundamental perspective of a long-term investor. The company has no debt, meaning interest payments, asset divestitures, and the future renegotiation of debt is not something Parex shareholders will have to worry about. Given numerous headlines of late highlighting the scale and speed at which Canadian oil and gas players are divesting of assets, this should bode well for the firm moving forward.

Additionally, one of the primary selling points for Parex when comparing this company to its peers is the fact that its operations are centered in Colombia. As such, the firm has been able to take advantage of increased operational leverage with respect to the commodity price of oil (Parex receives Brent pricing), increasing the firm's cash flow as oil prices have risen. Other competitors in the Canadian oil and gas space have not been as lucky, given the [hefty discounts](#) Canadian producers receive relative to global counterparts for raw materials.

Traditionally an exploration company, Parex has been successful in bringing on new wells at its existing properties, increasing the company's cash flow substantially in recent years. Since 2015, free cash flow has more than doubled, and the firm is currently trading around three times 2020 free cash flow, making Parex one of the cheapest high-quality players on the TSX right now, in my opinion.

Bottom line

Parex's fundamentals remain extremely strong, with Parex continuing to trade at a relatively minuscule multiple compared to cash flow. Negative earnings announcements, which included the announcement of a dry well in August as well as the sale of some non-core assets, have not been received well by financial markets, resulting in a 30% discount from Parex's 52-week high. I believe this is a company any investor can pick up at these levels and continue to add at these valuation multiples, as I believe Parex will outperform its peers in the Canadian oil and gas sector for some time to come.

Stay Foolish, my friends.

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