Top Energy Stock to Drive Upside for Your TFSA

Description

Along with everything else, oil prices have suffered big declines recently.

Western Texas Intermediate (WTI) oil has tanked to just over $50 from over $75 in October, and with Canadian oil prices having plummeted even more dramatically, energy stocks have taken a big hit.

Taking a step back and looking at the longer-term, we can see that WTI oil has made a strong comeback from its January 2016 lows of less than $36 and is now trading almost 50% higher.

The Brent crude oil price has followed a similar pattern as WTI pricing.

The volatility has been unsettling, distracting and nerve-racking, but at the end of the day, oil remains in high demand and is still a money-making business. But it is a cyclical business, after all.

This retrenchment is a buying opportunity

So if we acknowledge that the Canadian energy market is having bigger problems than the worldwide market, it makes sense for us to zero in on those companies that do not have Canadian pricing exposure, at least for now.

With assets in Columbia, a 100% oil-weighted production profile, and Brent pricing exposure, $2.5 billion energy stock **Parex Resources Inc**. (TSX:PXT) has this advantage.

Columbia basins are similar to the Western Canadian Sedimentary Basin 30 years ago, which means relatively easy extraction through 3D seismic and low-risk directional drilling techniques.

Parex Resources has spent the last many years diligently increasing production (six years of solid production growth), achieving consistent exploration success, and using the skill and experience of a seasoned management team that has been successful to drive a more than doubling of reserves since 2014.

Blindsided

Parex recently announced that they are trying to sell their existing producing assets that are maturing in order to become an exploration company again.

Reserve numbers are high, and with a reserve life of 10 years and a very successful history of converting possible reserves to producing reserves, they have clearly done this before.

But this was totally unexpected, and so shareholders that invested in the company for its strong cash flows and consistent and reliable production growth were thrown for a loop.

Consequently, the stock is down big from October highs.

Not a done deal

Two things are important here.

First of all, this is not a done deal. If the company does not find a buyer for its mature assets, it can continue on with its initial business model, where it has been a self-funded energy company generating ample amounts of free cash flow, strong production growth and shareholder value.

Second, if in fact the spin-off of its assets goes through, then we have a self-funded exploration company with a stellar track record in the area. Although it becomes a higher risk investment, it has the potential to create massive amounts of value for shareholders through low-risk exploration success.

Surely deserving of a small place in a well-diversified portfolio.

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